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UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

SACV 14-00110-DCC (JPR)

TIMOTHY J. FOSS, Derivatively on
Behalf of Himself and All Others
Similarly Situated,

Case No.

Plaintiff,

**VERIFIED SHAREHOLDER
DERIVATIVE COMPLAINT**

vs.

JURY TRIAL DEMANDED

CRAIG A. BARBAROSH, GEORGE
H. BRISTOL, JAMES C. MALONE,
PETER M. NEUPERT, MORRIS
PANNER, D. RUSSELL PFLUEGER,
STEVEN T. PLOCHOCKI, SHELDON
RAZIN, and LANCE E. ROSENWEIG

Defendants,

-and-

QUALITY SYSTEMS INC.,

Nominal Defendant.

1 Plaintiff Timothy J. Foss ("Plaintiff"), by and through his undersigned
2 attorneys, brings this action derivatively on behalf of nominal defendant Quality
3 Systems, Inc. ("Quality Systems" or the "Company") and alleges upon personal
4 knowledge as to himself and his own acts, and as to all other matters based upon
5 the investigation conducted by their attorneys which included, among other things,
6 a review of Securities and Exchange Commission ("SEC") filings, documents,
7 analyst reports, news reports, press releases, and other publicly available
8 information regarding the Company, as follows:

9 INTRODUCTION

10 1. This is a shareholder derivative action brought on behalf of the
11 Company against the members of its Board of Directors (the "Board")¹ and
12 certain of its executive officers seeking to remedy defendants' breaches of
13 fiduciary duties and other violations of the law that occurred from at least May 26,
14 2011 through the present (the "Relevant Period").

15 2. According to its public filings, nominal party Quality Systems
16 manufactures information systems and practice management software for medical
17 and dental practices. Quality Systems trades on the NASDAQ Stock Exchange
18 ("Nasdaq") under the symbol "QSII". Throughout the Relevant Period, the
19 Individual Defendants (as defined herein) caused or allowed the Company, in its
20 public filings, press releases and communications with analysts, to tout factually
21 baseless projections of revenue and earnings growth. For example, in a July 13,
22 2012 proxy statement filed with the SEC, the Company boasted that "for fiscal
23 2013, we expect that revenues will increase in the 20%-24% range and we expect
24

25
26 ¹ At the time of filing this action, Defendants Craig A. Barbarosh, George H.
27 Bristol, James C. Malone, Peter M. Neupert, Morris Panner, D. Russell Pflueger,
28 Steven T. Plochoki, Sheldon Razin, and Lance E. Rosenweig comprised the
Board or the Individual Defendants.

1 earnings per share to grow by 20%-25%.” The Company made these statements
2 despite receiving comment letters from the SEC on July 3 and July 9, 2012
3 requesting that the Company provide support for its projections. The Individual
4 Defendants ignored the SEC and on July 13 and July 23, 2012, Quality Systems
5 reaffirmed the false guidance that was provided to the market in its Definitive
6 Proxy Materials (the “Proxy Materials”). Notably, the Proxy Materials were
7 signed by Defendant Razin.

8 3. There was no reasonable basis for the Individual Defendants’
9 positive statements touting the Company’s purported growth prospects. In reality,
10 the Individual Defendants had engaged in or consciously permitted a widespread
11 and long-lasting scheme by which they caused or allowed the manipulation of
12 Company guidance.

13 4. On July 26, 2012, the Company announced that the guidance
14 provided in the Proxy Materials was being retracted due to the fact that earnings
15 per share at the Company had plummeted. The news shocked the market. Quality
16 Systems stock fell nearly 33% and analysts immediately downgraded Quality
17 Systems stock causing the Company to suffer substantial injury by losing nearly
18 \$330 million in market capitalization. As a result, the Company now faces a
19 securities fraud class action pending before this Court, entitled *Deerfield Beach*
20 *Police Pension Fund v. Quality Systems, Inc., et al.*, Civil Action No. 13-01818.

21 5. The Individual Defendants were fully aware of the problems related
22 to the reporting of the Company’s guidance yet they breached their fiduciary
23 duties by failing to take appropriate action. In fact, knowing the impact of the
24 truth emerging, Defendant Steven T. Plochocki (“Plochocki”) sold 88,500 of his
25 shares during the Relevant Period for \$43.99 per share. In using his knowledge of
26 the Company's undisclosed information to sell his personal holdings of Quality
27
28

1 Systems common stock at inflated prices, Defendant Plochocki used the
2 Company's proprietary information to his own benefit.

3 6. The misrepresentations and insider selling that occurred during the
4 Relevant Period are endemic of a deeper rooted problem at the Company.
5 Defendant Sheldin Razin ("Razin") is the Company's largest shareholder and
6 serves as its non-executive chairman of the Board. The lack of internal controls at
7 Quality Systems has allowed Defendant Razin to wield complete control over the
8 Company to his own benefit, even if that has meant deceiving the market and
9 destroying the Company's value.

10 7. Defendant Razin's dominance over the Board is evidenced in a
11 recently filed lawsuit against him by one of the Company's former directors. The
12 action is captioned *Ahmed D. Hussein v. Sheldon Razin et al.*, Case No. 30-2013-
13 00679600-CU-NP-CJC (Sup. Ct. Orange County) (the "Hussein action"). Mr.
14 Hussein's verified complaint, attached hereto as Exhibit A, details the corporate
15 governance failures at the Company, Defendants' self-dealing, and Defendant
16 Razin's control over the Company (i.e. how the Board is beholden to Defendant
17 Razin). As a former director of the Company, Mr. Hussein is uniquely positioned
18 to provide factual detail. For example, Defendant Hussein's complaint reveals
19 that after the Company retracted the guidance issued in the Proxy Materials,
20 during its August 16, 2012 meeting, the Board refused to investigate the
21 discrepancy between the Company's prior projections and its retracted guidance
22 on July 26, 2013. Exhibit A at ¶71. The complaint further states that when Mr.
23 Hussein confronted Defendant Plochocki about the issue, Defendant Plochocki
24 replied "he had authorized the prior projections because they were 'even less than
25 what Shelly [Razin] wants.'" *Id.* at ¶73. The problems at the Company are so
26 pervasive that according to the Mr. Hussein, the Company's former President and
27 a member of the board of directors, Patrick Cline resigned from the Company's
28

1 Board stating that “[a]fter careful consideration I have decided that given the
2 current board environment and company issues, I am unable to help the
3 company.” *Id.* at ¶75. Notably, in disclosing Mr. Cline’s resignation, Defendants
4 failed to state the reason for his resignation or disclose his resignation letter.

5 8. The Individual Defendants have breached and remain in breach of
6 their fiduciary duties. Absent Court intervention, the Company will continue to be
7 harmed. By this complaint, Plaintiff seeks to hold Defendants liable for their
8 failure to maintain proper internal controls, allowing the Company to disseminate
9 materially false and misleading information and depriving shareholders their
10 rights to democratically affect change within the Company, which has caused
11 Quality Systems to suffer, and to further enjoin such conduct. Because
12 Defendants committed the wrongdoing alleged herein, they cannot reasonably be
13 expected to initiate litigation on the Company’s behalf. In fact, this would require
14 them to pursue litigation against themselves. Accordingly, Plaintiff, as a non-
15 controlling and independent shareholder of Quality Systems proceeding
16 derivatively on behalf of the Company, is the proper party to prosecute this
17 lawsuit.
18

19 JURISDICTION AND VENUE

20 9. This Court has jurisdiction pursuant to 28 U.S.C. §1332(a), as
21 Plaintiff and Defendants are either citizens of different states or citizens of a state
22 and citizens or subjects of a foreign state and the amount in controversy exceeds
23 \$75,000 exclusive of interests and costs. This action is not a collusive action
24 designed to confer jurisdiction on a court of the United States that it would not
25 otherwise have.

26 10. This Court has jurisdiction over each defendant because each
27 defendant is either a corporation that conducts business in, and maintains
28 operations in, this District, or is an individual who has sufficient minimum

1 contacts with this District so as to render the exercise of jurisdiction by the
 2 District courts permissible under traditional notions of fair play and substantial
 3 justice.

4 11. Venue is proper in this Court under 28 U.S.C. §1391(a) because: (1)
 5 one or more defendants either reside in, or maintain executive offices in, this
 6 District; (2) a substantial portion of the transactions and wrongs complained of
 7 herein, including the defendants' primary participation in the wrongful acts
 8 detailed herein, occurred within this District, and (3) defendants have received
 9 substantial compensation in this District by conducting business herein and by
 10 engaging in numerous activities that have had an effect in this District.

11 **THE PARTIES**

12 **Plaintiff Shareholder**

13 12. Plaintiff is a current shareholder of Quality Systems and has been a
 14 shareholder of the Company continuously throughout the Relevant Period.
 15 Plaintiff is a citizen of the state of Illinois.

16 **Nominal Defendant Quality Systems.**

17 13. Quality Systems is a California corporation based in Irvine,
 18 California. The Company engages in the development and marketing of health
 19 care management systems, operating through four divisions (QSI Dental,
 20 NextGen, Hospital Solutions, and Revenue Cycle Management (RCM) Services).

21 **Individual Defendants**

22 14. Defendant Craig A. Barbarosh ("Barbarosh") has been a director of
 23 the Company since 2009 and serves as Chair of the Board's nominating and
 24 governance committee as well as sits on the Board's compensation, transaction,
 25 executive personnel, special committees. Because of Defendant Barbarosh's
 26 experience and positions at Quality Systems, his access to internal corporate
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1 documents, conversations and connections with other corporate offices and
2 employees, attendance at management and Board meetings and committees
3 thereof and via reports and other information provided to him in connection
4 therewith, he knew the non-public information about the business of Quality
5 Systems. Plaintiff is informed and believes that Defendant Barbaraosh is a
6 citizen of the State of California.

7 15. Defendant George H. Bristol ("Bristol") has been a director of the
8 Company since 2008. Defendant Bristol is chair of the Board's audit committee
9 as well as a member of its transaction, executive personnel and special
10 committees. Because of Defendant Bristol's experience and positions at Quality,
11 his access to internal corporate documents, conversations and connections with
12 other corporate offices and employees, attendance at management and Board
13 meetings and committees thereof and via reports and other information provided
14 to him in connection therewith, he knew the adverse non-public information about
15 the business of Quality Systems, its finances, and present and future business
16 prospects, as well as its lack of internal controls. Upon information and belief,
17 defendant Bristol is a citizen of either the State of Rhode Island or Connecticut.
18

19 16. Defendant John C. Malone ("Malone") has served as a director of the
20 Company since 2013. Upon information and belief, Defendant Malone is a citizen
21 of the State of Washington.

22 17. Defendant Peter M. Neupert ("Neupert") has served on the Board
23 since 2013. Upon information and belief, Defendant Neupert is a citizen of the
24 State of Washington.

25 18. Defendant Morris Panner ("Panner") has been a director of the
26 Company since 2013. Upon information and belief, Defendant Panner is a citizen
27 of the State of Massachusetts.
28

1 19. Defendant D. Russell Pflueger (“Pflueger”) has served as a director
2 of the Company since 2006. Defendant Pflueger is chair of the Company’s
3 compensation committee and a member of its executive personnel, audit and
4 special committees. Because of Defendant Pflueger’s experience and position at
5 Quality Systems, his access to internal corporate documents, conversations and
6 connections with other corporate offices and employees, attendance at
7 management and Board meetings and committees thereof and via reports and
8 other information provided to him in connection therewith, he knew the adverse
9 non-public information about the business of Quality Systems, its finances, and
10 present and future business prospects, as well as its lack of internal controls.
11 Upon information and belief, Defendant Pflueger is a citizen of the State of
12 California.

13
14 20. Defendant Plochocki has been a director of the Company since 2004
15 and has served as its Chief Executive Officer since August 16, 2008. He has also
16 served as the Company’s President since January 25, 2012. Because of Defendant
17 Plochocki’s experience and position at Quality Systems, his access to internal
18 corporate documents, conversations and connections with other corporate offices
19 and employees, attendance at management and Board meetings and committees
20 thereof and via reports and other information provided to him in connection
21 therewith, he knew the adverse non-public information about the business of
22 Quality Systems, its finances, and present and future business prospects, as well as
23 its lack of internal controls. Defendant Plochocki participated in the issuance of
24 improper statements, including the preparation of improper press release and
25 filings with the SEC. Upon information and belief, Defendant Plochocki is a
26 citizen of the State of California.

27 21. Defendant Razin is the founder of Quality Systems and has served as
28 its Chairman of the Board since 1974. Defendant Razin was formerly the Chief

1 Executive Officer of the Company but his employment was terminated by the
2 Company's Board in March 2000. Defendant Razin is the chair of the Company's
3 transaction committee and sits on its special committee and executive personnel
4 committee as well. Defendant Razin is the Company's largest shareholder,
5 owning approximately 17.1% of the Company's stock. Because of Defendant
6 Razin's experience and position at Quality Systems, his access to internal
7 corporate documents, conversations and connections with other corporate offices
8 and employees, attendance at management and Board meetings and committees
9 thereof and via reports and other information provided to him in connection
10 therewith, he knew the adverse non-public information about the business of
11 Quality Systems, its finances, and present and future business prospects, as well as
12 its lack of internal controls. Defendant Razin participated in the issuance of
13 improper statements, including the preparation of improper press release and
14 filings with the SEC. Upon information and belief, Defendant Razin is a citizen of
15 the State of California.
16

17 22. Defendant Lance E. Rosenzweig ("Rosenzweig") has been a director
18 of the Company since 2012. Defendant Rosenzweig serves on the Company's
19 compensation, transaction, executive personnel and special committees. Upon
20 information and believe, Defendant Rosenzweig is a citizen of the State of
21 California.
22

23 **DUTIES OF THE INDIVIDUAL DEFENDANTS**

24 23. By reason of their positions as officers and directors of the Company,
25 and because of their ability to control the business and corporate affairs of the
26 Company, the Individual Defendants owed the Company and its shareholders the
27 fiduciary obligations of good faith, trust, loyalty, and due care, and were, and are,
28 required to use their utmost ability to control and manage the Company in a fair,
just, honest, and equitable manner. The Individual Defendants were, and are,

1 required to act in furtherance of the best interests of the Company and its
2 shareholders so as to benefit all shareholders equally, and not in furtherance of
3 their personal interest or benefit.

4 24. Each director and officer of the Company owes to Quality Systems
5 and its shareholders the fiduciary duty to exercise good faith and diligence in the
6 administration of the affairs of the Company and in the use and preservation of its
7 property and assets, and the highest obligations of fair dealing. In addition, as
8 officers and directors of a publicly held company, the Individual Defendants had a
9 duty to promptly disseminate accurate and truthful information with regard to the
10 Company's revenue, margins, operations, performance, management, projections
11 and forecasts so that the market price of the Company's stock would be based on
12 truthful and accurate information.

13
14 25. The Individual Defendants, because of their positions of control and
15 authority as directors and/or officers of Quality Systems, were able to and did,
16 directly and/or indirectly, exercise control over the wrongful acts complained of
17 herein, as well as the contents of the various public statements issued by the
18 Company. Because of their executive, managerial and directorial positions with
19 Quality Systems, each of the Individual Defendants had access to adverse, non-
20 public information about the financial condition, operations, and
21 misrepresentations made.

22 26. At all times relevant hereto, each of the Individual Defendants was
23 the agent of the other Individual Defendants and of Quality Systems, and was at
24 all times acting within the course and scope of such agency.

25 27. To discharge their duties, the officers and directors of Quality
26 Systems were required to exercise reasonable and prudent supervision over the
27 management, policies, practices and controls of the financial affairs of the
28

1 Company. By virtue of such duties, the officers and directors of Quality Systems
2 were required to, among other things:

3 a. manage, conduct, supervise and direct the business affairs of
4 Quality Systems in accordance with all applicable laws;

5 b. neither violate nor knowingly permit any officer, director or
6 employee of Quality Systems to violate applicable laws, rules and regulations;

7 c. establish and maintain systematic and accurate records and
8 reports of the business and affairs of Quality Systems and procedures for the
9 reporting of the business and affairs to the Board and to periodically investigate,
10 or cause independent investigation to be made of, said reports and records;

11 d. neither engage in self-dealing nor knowingly permit any
12 officer, director or employee of Quality Systems to engage in self-dealing;

13 e. ensure that the Company complied with its legal obligations
14 and requirements, including acting only within the scope of its legal authority and
15 disseminating truthful and accurate statements to the SEC and the investing
16 public;

17 f. conduct the affairs of the Company in an efficient, business-
18 like manner so as to make it possible to provide the highest quality performance of
19 its business, to avoid wasting the Company's assets, and to maximize the value of
20 the Company's stock;

21 g. properly and accurately guide investors and analysts regarding
22 the true financial condition of the Company at any given time, including making
23 accurate statements about the Company's financial results and prospects, and
24 ensuring that the Company maintained an adequate system of financial controls
25 such that the Company's financial reporting would be true and accurate at all
26 times; and
27
28

1 h. remain informed of how Quality Systems conducted its
2 operations, and, upon receipt of notice or information of imprudent or unsound
3 conditions or practices, to make reasonable inquiry in connection therewith, and to
4 take steps to correct such conditions or practices and make such disclosures as
5 necessary to comply with applicable laws.

6 28. Each of the Individual Defendants, by virtue of his or her position as
7 a director and officer, owed to the Company and its shareholders the fiduciary
8 duties of loyalty, good faith, and the exercise of due care and diligence in the
9 management and administration of the affairs of the Company, as well as in the
10 use and preservation of its property and assets. The conduct of the Individual
11 Defendants alleged herein involves violations of their obligations as directors and
12 officers of Quality Systems, the absence of good faith on their part and a reckless
13 disregard for their duties to the Company and its shareholders. The Individual
14 Defendants were aware or should have been aware that this posed a risk of serious
15 injury to the Company. The conduct of the Individual Defendants, who were also
16 officers and/or directors of the Company, has been ratified by the remaining
17 Director Defendants who collectively comprised all of Quality Systems' Board
18 during the Relevant Period.
19

20 29. The Individual Defendants breached their duties of loyalty and good
21 faith by allowing Defendants to cause, or by themselves causing, the Company to
22 misrepresent its financial results and prospects, as detailed herein, and by failing
23 to prevent employees and/or officers of the company from taking such illegal
24 actions. In addition, the Company is now the subject of class action litigation
25 alleging violation of federal securities laws, which necessitates that the Company
26 incur excess costs arising from the Individual Defendants' wrongful course of
27 conduct.
28

1 30. Additionally, Quality Systems has established a Code of Business
2 Conduct and Ethics (the "Code") that applies to all employees of the Company.
3 The Code among other things provides that:

- 4 • Obeying the law, both in letter and in spirit, is the foundation on
5 which this Company's ethical standards are built. All employees
6 must respect and obey the laws of the cities, states and countries in
7 which we operate

8 31. With respect to the accuracy of record keeping and disclosures, the
9 Code provides:

10
11 Record Keeping

12 The Company requires honest and accurate recording and reporting of
13 information in order to make responsible business decisions. For example,
14 only the true and actual number of hours worked should be reported.

15 Many employees regularly use business expense accounts, which must be
16 documented and recorded accurately. If you are not sure whether a certain
17 expense is legitimate, ask your supervisor or your Divisional Head.

18 All of the Company's books, records, accounts and financial statements
19 must be maintained in reasonable detail, must appropriately reflect the
20 Company's transactions and must conform both to applicable legal
21 requirements and to the Company's system of internal controls. Unrecorded
22 or off-the-books funds or assets should not be maintained, unless permitted
23 by applicable law or regulation.

24 32. With respect to Insider Trading the Code provides:

25 Employees who have access to confidential information are not permitted to
26 use or share that information for stock trading purposes or for any other
27 purpose except the conduct of our business. All material non-public
28 information about the Company should be considered confidential
information. To use non-public information for personal financial benefit or
to "tip" others who might make an investment decision on the basis of this
information is not only unethical but also illegal. In order to assist with

1 compliance with laws against insider trading, the Company has adopted a
2 specific policy governing employees trading in securities of the Company.

3 33. Moreover, the Audit Committee's Charter as amended and approved
4 by the Board on January 29, 2004 sets forth the additional duties and
5 responsibilities of the Audit Committee of the Board among which are to:

6 1. Review and reassess the adequacy of this Charter annually and
7 recommend any proposed changes to the Board of Directors for approval.

8 2. Review and discuss with management and the independent auditor
9 the annual audited financial statements, including disclosures made in
10 management's discussion and analysis, and recommend to the Board of
11 Directors whether the audited financial statements should be included in
12 the Company's Form 10-K.

13 3. Review and discuss with management and the independent auditor
14 the Company's quarterly financial statements prior to the filing of its Form
15 10-Q, including the results of the independent auditor's review of the
quarterly financial statements.

16 4. Review and discuss reports from the independent auditors on:

17 (a) All critical accounting policies and practices to be used.

18 (b) All alternative treatments of financial information within
19 generally accepted accounting principles that have been discussed
20 with management, ramifications of the use of such alternative
21 disclosures and treatments, and the treatment preferred by the
22 independent auditor.

23 (c) Other material written communications between the independent
24 auditor and management, such as any management letter or schedule
25 of unadjusted differences.

26 5. Discuss with the independent auditor the matters required to be
27 discussed by Statement on Auditing Standards No. 61 relating to the
28 conduct of the audit, including any difficulties encountered in the
course of the audit work, any restrictions on the scope of activities

1 or access to requested information, and any significant
2 disagreements with management.

- 3 6. Review disclosures made to the Audit Committee by the Company's
4 CEO and CFO during their certification process for the Form 10-K
5 and Form 10-Q about any significant deficiencies in the design or
6 operation of internal controls or material weaknesses therein and any
7 fraud involving management or other employees who have a
significant role in the Company's internal controls.

8 **CONSPIRACY, AIDING AND ABETTING,**
9 **AND CONCERTED ACTION**

10 34. In committing the wrongful acts alleged herein, the Individual
11 Defendants have pursued, or joined in the pursuit of, a common course of conduct,
12 and have acted in concert with, and conspired with one another in furtherance of
13 their common plan or design. In addition to the wrongful conduct herein alleged
14 as giving rise to primary liability, the Individual Defendants further aided and
15 abetted and/or assisted each other in breach of their respective duties.

16 35. During all times relevant hereto, the Individual Defendants
17 collectively and individually initiated a course of conduct that was designed to and
18 did:

19 (a) Conceal the fact that the Company was improperly misrepresenting
20 its financial results in order to allow Defendants to artificially inflate the
21 price of the Company's shares;

22 (b) Maintain the Individual Defendants' executive and directorial
23 positions at QUALITY SYTEMS and the profits, power and prestige that
24 the Individual Defendants enjoyed as a result of these positions; and

25 (c) Deceive the investing public, including shareholders of Quality
26 Systems, regarding the Individual Defendants' management of Quality
27 System's operations, the Company's financial health and stability, and
28 future business prospects, specifically related to the Company's financials
that had been misrepresented by defendants throughout the Relevant Period.

1 Executive Officer of Quality Systems and President of Quality Systems was a co-
2 founder of Clinitec and after Clinitec was acquired in 1996 it was combined with
3 another company to form the basis of Quality Systems NextGen business unit.
4 Under the leadership of Patrick Cline, the NextGen business unit flourished,
5 becoming one of the leaders in the development and provision of electronic health
6 records. Between 2000 and 2009 the NextGen business unit grew by 1300%.
7 The unit ultimately accounted for approximately 95% of Quality Systems
8 revenues and profits and this was reflected in the Company's stock price.
9 However, according to Mr. Hussein's complaint the NextGen unit began to falter
10 when Mr. Cline resigned his position in 2011 after being frustrated with Razin's
11 decision making and the steps he had taken to exert control over the NextGen.
12 Exhibit A, at 6.

13
14 41. Quality Systems' ability to generate future revenue was integral to
15 the value of its stock. During the Relevant Period the Company repeatedly touted
16 its growth prospects. In 2012, Defendant Plochocki emphasized that the
17 Company's stock was a good investment because the Company had exceeded
18 analysts' expectations for five consecutive quarters and analysts in turn
19 recommended the Company stock due to its growth profile. But by May 2011,
20 Mr. Cline's resignation combined with concern with that Quality Systems had
21 saturated its principal markets led the market to question whether the Company's
22 historical growth rates could be maintained. For example, Oppenheimer stated
23 investors had begun to question whether "peak multiples may be behind us."

24 42. To reassure the market and maintain the Company's stock price the
25 Individual Defendants engaged in a scheme of misrepresenting earnings and
26 guidance projections.
27
28

**THE INDIVIDUAL DEFENDANTS' CAUSE OR ALLOW THE
COMPANY TO MAKE FALSE AND MISLEADING STATEMENTS
DURING THE RELEVANT PERIOD**

43. The Relevant Period begins on May 26, 2011. On this date, the Company held an analyst conference call to report its quarterly results for the fiscal 2011 quarter. During the call, Defendant Plochocki stated that Quality Systems was "in agreement with the consensus view of analysts in terms of their projections for revenues for fiscal year 2012." Similarly, on July 28, 2011 Defendant Plochocki again stated the Company was "in agreement with the consensus view of the analysts for revenue and earnings per share."

44. On October 27, 2011, Quality Systems held an analyst conference call to discuss its results for the fiscal 2012 second quarter. During this conference Defendant Plochocki stated:

As a result of our strong first-half performance and our confidence in the second half of this year, we are now prepared to up our general views for the year. More in line with consensus views, we are now in general agreement with a revenue range of growth of 21% to 24% for the year and an BPS range of growth of 29% to 33% for the year. This is an upgrade fi40m our previous views of 20% to 23% revenue growth and ... 28% to 32% BPS growth. Our confidence is strong, we're bullish on our second half[.]

45. Moreover, in response to an analyst's question about whether the Company's raised guidance was conservative, Defendant Plochocki responded that the guidance was "quite conservative."

46. Less than one month later, *Investor's Business Daily* published an interview with Defendant Plochoki, on November 7, 2011. The article was titled "Quality Systems Chief Says the Company's Business Boom Just Getting Started." During the interview, Defendant Plochocki was questioned about the market's concern that the Company's business may be slowing. He emphatically

1 denied this in the article which stated "Plochocki said worries about flattening and
2 saturation were baseless. 'There is nothing drying up and there is nothing slowing
3 down,' he said."

4 47. On January 9, 2012, Defendant Plochocki attended a JPMorgan
5 Global Health Care Conference. At this conference Defendant Plochocki once
6 again affirmed the upwardly revised fiscal 2012 guidance stating:

7 We are earmarked for a very strong year. Our fiscal year ends March 31,
8 and we have given analysts prognostications for ...earnings per share
9 growth [in the] 29% to 34% range.

10 48. Then, on January 26, 2012, the Company held an analyst call to
11 discuss its results for the third fiscal quarter of 2012. On the call Defendant
12 stated:

13 Our pipeline continues to build to record levels. As leads, RFPs online
14 demos, web hits continue to accelerate throughout all of our business
15 units, we're setting a very strong foundation for what we believe is going
16 to be a powerfully robust period here in the second 24 year of the stimulus
movement.

17 49. During the January 26 call an analyst noted that the Company had
18 reported higher level guidance to which Defendant Plochocki responded:

19 I think the guidance that we provided last quarter was 21 % to 24%
20 revenue growth for the year. That's the year that will be ending in two
21 months. And then our EPS, I think we upgraded to 29% to 4 34%. And
22 actually, quite honestly, we probably have a pretty good shot at 35% on
23 that bottom one. And then, of course, we'll be announcing guidance on our
next call for our fiscal year 2013.

24 50. Defendant Plochocki continued touting the Company's future growth
25 prospects during UBS's February 7, 2012 Global Health Care Services
26 Conference. At the conference Defendant Plochocki stated:

27 Our sales pipeline; we have \$183 million worth of pipeline, the business
28 we intend to close within the next six to eight months. That sales pipeline

1 has grown every quarter since the announcement of the stimulus bill back
2 in February of 2009 and we view it as continually growing as a result of
3 the fact that the leads that continue to come into our system, the RFPs, are
building a strong base along those areas.

4 51. Defendant Plochocki's public comments described above were false
5 and misleading because the financial results and guidance contained therein did
6 not comply with GAPP standards and relevant SEC regulations. The Company
7 was experiencing a material slow-down yet Defendant Plochocki continued to
8 reaffirm the Company's earnings growth.

9 52. On May 10, 2012, the Company filed a Press Release and Form 8-K
10 announcing that it miss it guidance. At the same time, however, Form 8-K issued
11 highly favorable guidance for fiscal year 2013 and projected earnings per share to
12 grow between 20% to 25% versus the 2012 fiscal year.

13 53. Seven days later, on May 17, 2012, the Company held a conference
14 call to discuss its fiscal year results. During the call Defendant Ploschocki misled
15 investors that the poor 2012 fiscal year results were a one-time event. Defendant
16 Plochocki stated:

17
18 Our performance for fiscal 2012 fourth quarter was impacted due to
19 delays. In both the closing of several fourth quarter opportunities, as well
20 as recognition of revenue related to a large customer implementation.
21 Looking ahead, we remain confident about the growth opportunities, as
22 evidenced by our recent guidance in the 2013 fiscal year. We have stated
23 that we expect revenues to increase 20% to 24%, earnings per share to
grow 20% to 25%.

24 Some of the key dial-movers for our upcoming year include, one, to
25 continue to expand offshore capabilities for software development and
26 back office functions; two, expand our international distribution channel;
27 three, continue to maximize cross-selling opportunities; four, sell more
28 multiple product deals, like the Norton deal that we recently announced;
five, expand RCM capabilities to dental and hospital markets; six, move
upstream in the hospital sector; seven, be at the forefront of ACO

1 modeling. At HIMSS in February, we introduced five new products to aid
2 physicians in that effort. Eight, continue to complete and win in the 50%
3 of the market that has yet to adopt electronic medical records. Nine,
4 continue to acquire product and service offerings that supplement or
5 complement our core offerings domestically and internationally.

6 54. In responding to an analysts question regarding the Company's
7 ability to meet guidance, Defendant Plochoki responded that the Company was
8 "very confident" that it would meet guidance. He further stated, "Our
9 fundamentals haven't changed. Our pipeline keeps growing" and "we believe that
10 we are going to be able to continue to grow at 20/20."

11 55. One month later, on June 26, 2012, the Company filed proxy
12 materials with the SEC on Schedule 14A. The proxy materials contained an open
13 letter to the Company's shareholders signed by Defendants Razin, Plochocki,
14 Barbarosh, Bristol, Pflueger and Rosenzweig (the "June 26, 2012 letter"). The
15 proxy materials were motivated by a potential proxy contest that Mr. Hussein
16 would be waging to nominate a slate of directors of his choosing. To persuade
17 shareholders to maintain current management, the letter stated the following:

18 We are proud of our strong record of delivering earnings growth and
19 generating superior returns for our shareholders. We are also confident
20 about our growth prospects. For fiscal 2013, we expect that revenues will
21 increase in the 20-24% range and we expect earnings per share to grow by
22 20-25%.

23 56. These statements however were false and misleading and there was
24 no reasonable basis for the guidance issued. At the time the letter was published,
25 the Company was already experiencing a material decline.

26 57. The pending proxy battle between Mr. Hussein and the Individual
27 Defendants drew the attention of the SEC. On July 3, 2012, the SEC sent a letter
28 to the Company scrutinizing its proxy materials and stating:

1 Your proxy materials contain specific projections about the about future
2 performance of Quality Systems. For example, we note the following
3 statement: "For fiscal 2013, we expect that revenues will increase in the
4 20-24% range and we expect earnings per share to grow by 20-25%.
5 Please provide support for these very specific projected figures by
6 describing the assumptions underlying them, including any limitations on
7 those assumptions or other factors that may cause them not to be realized.
8 You may include such support in the proxy statement itself, or in revised
9 additional proxy materials. Please revise and advise how you will make
10 the necessary changes.

11 58. The July 3, 2012 letter further stated:

12 Support for any statements of fact, such as the earnings and revenue
13 figures that appear in your proxy materials, must appear in the materials
14 themselves or be provided supplementally to the staff. At a minimum, in
15 your response letter, provide cites to the periodic reports or other filings in
16 which such figures are reported.

17 59. On July 9, 2012 the Company filed a revised preliminary proxy
18 statement attempting to address the SEC's July 3, 2012 letter. The revised
19 materials drew even further scrutiny from the agency. The SEC sent a letter to the
20 Company on July 9, 2012 stating:

21 Refer to the new disclosure appearing at the top of page 10 of your revised
22 proxy statement. Your criticisms of Mr. Hussein's nominees reference their
23 lack of deep industry knowledge and experience with the Company.
24 However, we note that one of Mr. Hussein's nominees (Mr. Brennan) is a
25 current director and another (Mr. Cline) served as President and Chief
26 Strategy Office of the Company from 2009 until December 2011. With
27 respect to Mr. Cline, explain why you do not believe he is well equipped to
28 serve on the Board, given his prior position with the Company.

60. The letter further stated:

Refer to comment 15 in our letter dated July 3, 2012 and your response.
The revised disclosure on page 5 of the proxy statement added in response
to our comment is confusing because the specific projections we cited in
comment 15 do not appear there. Comment 15 asked you to provide support
and describe the assumptions underlying the very specific projected figures

1 cited in the comment and included in your prior proxy materials; providing
2 generic support and discussion without the projections themselves is
confusing. Please revise or advise.

3 61. Despite the SEC scrutiny, the Company reaffirmed its 2013 fiscal
4 year guidance in the Proxy Materials filed on July 13 and 23, 2012. On July 13,
5 2012, the Company filed its Definitive Proxy Statement with the SEC on Schedule
6 14A and on July 23, 2012 the Company filed Additional Definitive Proxy
7 Materials. Both filings were signed by Defendants Razin and Plochocki and both
8 maintained that in Fiscal 2013 the Company expected earnings per share to grow
9 by 20-25%.

10 62. As set forth herein, the Individual Defendants' public statements
11 during the Relevant Period were materially false and misleading because there
12 was no reasonable basis for their positive statements about the Company's
13 purported strong financial conditions and prospects.

14 **THE TRUTH EMERGES**

15
16 63. During an earnings call held on July 26, 2012, Defendant Plochocki
17 announced that Quality Systems' net income for the first quarter of fiscal 2013
18 had declined by 18% from the prior year, and that its diluted earnings per share
19 had declined 19% from the prior year. Defendant Plochocki said the results were
20 attributable to "lower than expected revenue from large, higher margin software
21 system sales." Defendant Plochocki also stated that the Company was retracting
22 the earnings guidance that had been provided in May, June and July 2012, and
23 reaffirmed less than two weeks earlier on July 13, 2012. He stated Quality
24 Systems was "not affirming our previous guidance nor providing revised guidance
25 at this time." This retraction, without any explanation of any change in the
26 Company's prospects that could account for the deviation from the earnings
27 guidance that the company had re-affirmed as recently as just thirteen days earlier,
28

1 destroyed the credibility of the Company and the value of its shares in the
2 marketplace, causing a 36.3% price drop in one day and causing the company to
3 trade at a substantial discount to the price to earnings ratios at which its key
4 competitors were trading.

5 64. The retraction of Quality Systems' previously issued earnings
6 guidance, without any explanation or the identification of any change in the
7 company's sales or financial performance during the thirteen-day period since it
8 had last re-affirmed its fiscal 2013 earnings guidance, came as a total shock to the
9 market. On July 26, 2012, QSI's stock price immediately plunged from \$23.63 per
10 share to \$15.04 per share.

11 65. The Individual Defendants, by their fiduciary duties of care, good
12 faith and loyalty, owe Quality Systems and its shareholders a duty to ensure that
13 the Company's public statements fairly presented, in all material respects, Quality
14 Systems, as well as issues material to the Company's management, internal
15 controls, disclosures and operations.

16 66. The Individual Defendants had a duty to ensure that the Company
17 had proper internal controls and reporting systems. Yet, instead of addressing the
18 deficiencies in the reporting systems at the Company, the Individual Defendants
19 chose to misrepresent the Company's financial health. As a result of the
20 Individual Defendants' actions, Quality Systems' stock has plummeted and the
21 Company has been significantly injured.

22 A HISTORY OF POOR GOVERNANCE

23 67. The Individual Defendants scheme to mislead the market regarding
24 Company's growth prospects were enabled by their failure to implement
25 appropriate corporate governance practices at the Company.

26 68. Defendant Razin held the Chief Executive Officer position at the
27 Company until March 2000 when, according to Mr. Hussein, he contravened
28

1 provisions of a prior Memorandum of Understanding he had entered by seeking to
2 sell the Company without giving prior notice to or getting approval from the
3 Company's then existing board of directors. Exhibit A at ¶35. The Board issued
4 a written reprimand of Defendant Razin and his position was filled by Mr. Cline.
5 However, due to his large share ownership, Defendant Razin remained on the
6 Board. According to Mr. Hussein, after his removal as CEO, Defendant Razin
7 began taking steps to reassert his control over the Board and establish himself as
8 the Company's *de facto* CEO.

9
10 69. In 2004, Defendant Razin orchestrated the appointment of a new slate
11 of directors beholden to him. *Id.* at ¶37. Two of the four members of Company's
12 nominating committee formed a subcommittee and nominated directors supported
13 by Defendant Razin. *Id.* This was done without the approval of the full board or a
14 majority of the independent directors or the full nominating committee. *Id.* Once
15 Defendant Razin's new slate of directors was appointed they proceeded to adopt
16 amendments to the Company's by-laws to reclassify Defendant Razin as an
17 "independent director" despite the fact that he is the Company's largest
18 shareholder. *Id.* at ¶38. This allowed Defendant Razin to participate in the
19 corporate decision making functions that were to be controlled by the Company's
20 independent directors.

21 70. Defendant Razin also had his new slate of directors increase the size
22 of the Board to include two members of the Company's management team which
23 further consolidated Defendant Razin's control by ensuring a majority of the
24 Board would consist of interested directors he had selected. *Id.* at ¶39. Defendant
25 Razin then embarked on a series of actions to further consolidate his power over
26 the Company. Mr. Hussein's complaint summarizes these actions and states, in
27 relevant part that Defendant Razin actions included, among other things:
28

- 1 • Restructuring the composition of board committees to increase Razin's
2 power and influence over the company by ensuring that all committees
3 would be chaired by the directors most closely aligned with Razin and
4 that there would be no ability for Hussein or his nominees influence
5 corporate decision making;
- 6 • Circumventing a decision, approved by a 6-1 vote at a special board
7 meeting held in June 2004, to replace the corporate counsel chosen by
8 Razin with a new independent counsel and to retain the new counsel to
9 investigate inaccuracies in board minutes and legal recommendations
10 prepared by the prior counsel by causing QSI management to fail to fund
11 the retainer for the independent counsel;
- 12 • Changing corporate by-laws to place decision making power in so called
13 "independent directors' committees" controlled by Razin that were
14 independent in name only, while excluding Hussein from participation
15 in those committees;
- 16 • Substantially increasing the compensation packages for QSI executives
17 under which the executives would receive significantly higher
18 compensation than they had previously even if the company's business
19 performance deteriorated;
- 20 • Substantially increasing the compensation packages for QSI directors to
21 levels far in excess of the amounts QSI directors had previously made,
22 and more than ten times in excess of the compensation that the directors
23 were to have received when they joined the board; and
- 24 • In early August 2012, NextGen president Scott Decker, one of the key
25 executives along with Cline in the NextGen business that had been
26 responsible for the growth of QSI, informed Razin and QSI management
27 and his subordinates that he was resigning from the company because of
28 objections to Razin claiming the status of an independent director while
maintaining an office in the company and functioning as its CEO. Razin
and Plochocki did not inform the full QSI board of this fact and delayed
announcing Decker's resignation until after the contested board election
at the annual shareholders meeting held in mid-August 2012. Razin and
Plochocki engaged in this subterfuge in order to ensure the election of
Razin's slate of directors, thereby depriving Hussein and the company's
shareholders of the right to a fair and informed election.

Id. at ¶40.

1 71. Thus, Defendant Razin has been able to consolidate power his at the
2 Company. According to Mr. Hussein's complaint, without Board authorization
3 Defendant Razin maintains an office at Quality Systems, controls and directs the
4 uses of the Company's facilities and resources and manages the Company on a
5 day-to-day basis. *Id.* at 60.

6 72. Defendant Razin has readily abused his power at the Company in
7 order to engage in self-dealing based on false premises and on unreasonable
8 terms. For example, in May 2010, Joseph Davis, an independent director of the
9 Company alerted the Company's Board that Defendant Razin had for the prior
10 seven years falsely certified that he was a full-time employee of the Company in
11 order to obtain health insurance for himself and his wife under the Company's
12 benefit plan. *Id.* at ¶46. The claims conflicted with Defendant Razin's
13 contemporaneous claims that he was an independent director of the Company.
14 Mr. Davis proposed an independent investigation of the issue. *Id.* The proposal
15 was seconded by Mr. Hussein but was voted down by Defendant Razin and the
16 directors aligned with him. Defendant Razin cast the deciding vote and did not
17 recuse himself despite being self-interested. *Id.* Notably, Mr. Davis was not
18 nominated for re-election to the Company's Board.

19 73. Similar to the health benefits he put in place for himself, Defendant
20 Razin had the Board approve a resolution under which he and his wife would
21 receive life insurance benefits. *Id.* at ¶47. Defendant Razin had the Company's
22 corporate counsel draft the resolution without getting prior authorization from the
23 Board to do so and the arrangement contravenes the Company's 2000 severance
24 agreement with him under which he was only to receive insurance for three years
25 following his termination. *Id.* at ¶40

26 74. Perhaps, Defendant Razin's most brazen actions come from his
27 oversight of the Proxy Materials. The Company's SEC filings provide the
28

1 following with respect to the Special Committee responsible for its proxy
2 materials:

3
4 We have recently been subject to proxy contests, the use of cumulative
5 voting rights and litigation brought against us by a former director, Mr.
6 Hussein. In light of this history, on May 26, 2010, our Board formed a
7 Special Committee to address matters of this type. Among other things, the
8 Special Committee has been authorized to act on our Board's behalf in
9 connection with the solicitation and voting of proxies at the annual meeting,
10 except where the Proxy Voting Committee has been authorized to act, as
11 well as all matters related to any litigation or threat of litigation associated
12 with such meeting and its related activities. The Special Committee
13 currently consists of Messrs. Razin, Barbarosh, Bristol, Pflueger and
14 Rosenzweig.

15 75. Defendant Razin formed the Special Committee only with directors
16 who were closely aligned and chosen by him. *Id.* at ¶60. Defendant Razin
17 chaired the Special Committee and signed the Company's proxy materials on
18 behalf of the Special Committee. *Id.* Thus, there was no check to Defendant
19 Razin incorporating the misleading guidance in the Company's Proxy Materials.

17 **DERIVATIVE AND DEMAND EXCUSED ALLEGATIONS**

18 76. Plaintiff brings this action derivatively in the right and for the benefit
19 of Quality Systems to redress injuries suffered, and to be suffered, by Quality
20 Systems as a direct result of the breaches of fiduciary duty, abuse of control, gross
21 mismanagement, waste of corporate assets and unjust enrichment, as well as the
22 aiding and abetting thereof, by the Individual Defendants. Quality Systems is
23 named as a nominal defendant solely in a derivative capacity. This is not a
24 collusive action to confer jurisdiction in this Court that it would not otherwise
25 have.

26 77. Plaintiff will adequately and fairly represent the interests of Quality
27 Systems and its shareholders in enforcing and prosecuting its rights.
28

1 78. Plaintiff is an owner of Quality Systems common stock and was an
2 owner of Quality Systems common stock at all times relevant to the Individual
3 Defendants' wrongful course of conduct alleged herein.

4 79. At the time that this action was commenced, the Board consisted of
5 the following nine directors: defendants Craig A. Barbarosh, George H. Bristol,
6 James C. Malone, Peter M. Neupert, Morris Panner, D. Russell Pflueger, Steven
7 T. Plochocki, Sheldon Razin, and Lance E. Rosenweig

8 80. As a result of the facts set forth herein, Plaintiff did not made any
9 demand on the Quality Systems Board to institute this action against the
10 Individual Defendants. Such demand would have been a futile and useless act
11 with respect to each and every one of the Individual Defendants because they are
12 incapable of making an independent and disinterested decision to institute and
13 vigorously prosecute this action for the following reasons:
14

15 (a) The Board of Directors lacks independence because they are
16 entangled in a web of corporate interests built around Defendant Razin. As set
17 forth in detail above, Defendant Razin habitually stands to personally benefit from
18 the ways in which he controls Quality System's operations to the detriment of
19 Quality Systems and its shareholders, and has surrounded himself with a complicit
20 board that will aid him in his self-interested pursuits;

21 (b) Defendant Razin is not independent as he is the Company's
22 largest shareholder. Moreover, he chairs the Special Committee responsible for
23 the misleading guidance contained in the Company's Proxy Materials, signed the
24 Proxy Materials and signed the June 26, 2012 letter containing misleading
25 guidance.

26 (c) Defendants Plochocki, Barbarosh, Bristol, Plueger and
27 Rosenzweig are likewise not independent as they sit on the Special Committee
28

1 that was responsible for the Company's Proxy Materials and all signed the June
2 26, 2012 letter containing misleading guidance.

3 (d) In addition, the principal professional occupation of defendant
4 Plochocki is his employment with Quality Systems as its CEO, pursuant to which
5 he has received and continues to receive substantial monetary compensation and
6 other benefits. Thus, defendant Plochocki lacks independence from demonstrably
7 interested directors, rendering him incapable of impartially considering a demand
8 to commence and vigorously prosecute this action. Moreover, Defendant
9 Plochocki, as described above issued various false and misleading statements
10 regarding Company. Additionally, Defendant Plochocki is not independent given
11 his insider trading during the Relevant Period;

12 (e) Defendant Bristol and Pflueger sit on the Company's audit
13 committee and have a heightened duty to ensure the accuracy in the Company's
14 financial reporting. As interested members of the Audit Committee these
15 defendants do not stand in a position to independently act in the Company's best
16 interests and are hopelessly conflicted.

17 (f) Each member of the Board faces a substantial likelihood of
18 liability for breaching their fiduciary duties of loyalty and good faith as alleged
19 herein, and are therefore incapable of disinterestedly and independently
20 considering a demand to commence and vigorously prosecute this action.

21 22 **COUNT I**

23 **AGAINST THE INDIVIDUAL DEFENDANTS FOR BREACH OF** 24 **FIDUCIARY DUTY FOR DISSEMINATING FALSE AND MISLEADING** 25 **INFORMATION**

26 81. Plaintiff incorporates by reference and realleges each and every
27 allegation set forth above, as though fully set forth herein.
28

COUNT III
AGAINST INDIVIDUAL DEFENDANTS FOR BREACH OF FIDUCIARY DUTIES FOR FAILING TO PROPERLY OVERSEE AND MANAGE THE COMPANY

89. Plaintiff incorporates by reference and realleges each and every allegation contained above, as though fully set forth herein.

90. Individual Defendants owed and owe Quality Systems fiduciary obligations. By reason of their fiduciary relationships, the Individual Defendants specifically owed and owe Quality Systems the highest obligation of good faith, fair dealing, loyalty and due care.

91. Individual Defendants, and each of them, violated and breached their fiduciary duties of care, loyalty, reasonable inquiry, oversight, good faith and supervision.

92. As a direct and proximate result of Individual Defendants' failure to perform their fiduciary obligations, Quality Systems has sustained significant damages, not only monetarily, but also to its corporate image and goodwill.

93. As a result of the misconduct alleged herein, Individual Defendants are liable to the Company.

94. Plaintiff, on behalf of Quality Systems, has no adequate remedy at law.

COUNT IV
AGAINST ALL INDIVIDUAL DEFENDANTS FOR ABUSE OF CONTROL

95. Plaintiff incorporates by reference and realleges each and every allegation contained above, as though fully set forth herein.

96. Individual Defendants' misconduct alleged herein constituted an abuse of their ability to control and influence Quality Systems, for which they are legally responsible. In particular, the Individual Defendants abused their positions

1 of authority by causing or allowing Quality Systems to misrepresent material facts
2 regarding its financial position and business prospects.

3 97. As a direct and proximate result of the Individual Defendants' abuse
4 of control, Quality Systems has sustained significant damages.

5 98. As a result of the misconduct alleged herein, the Individual
6 Defendants are liable to the Company.

7 99. Plaintiff, on behalf of Quality Systems, has no adequate remedy at
8 law.

9
10 **COUNT V**

11 **AGAINST ALL INDIVIDUAL DEFENDANTS FOR GROSS**
12 **MISMANAGEMENT**

13 100. Plaintiff incorporates by reference and realleges each and every
14 allegation set forth above, as though fully set forth herein.

15 101. The Individual Defendants had a duty to Quality Systems and its
16 shareholders to prudently supervise, manage and control the operations, business
17 and internal financial accounting and disclosure controls of Quality Systems.

18 102. Individual Defendants, by their actions and by engaging in the
19 wrongdoing described herein, abandoned and abdicated their responsibilities and
20 duties with regard to prudently managing the businesses of Quality Systems in a
21 manner consistent with the duties imposed upon them by law. By committing the
22 misconduct alleged herein, Individual Defendants breached their duties of due
23 care, diligence and candor in the management and administration of Quality
24 Systems' affairs and in the use and preservation of Quality Systems' assets.

25 103. During the course of the discharge of their duties, the Individual
26 Defendants knew or recklessly disregarded the unreasonable risks and losses
27 associated with their misconduct, yet the Individual Defendants caused Quality
28 Systems to engage in the scheme complained of herein which they knew had an

1 unreasonable risk of damage to Quality Systems, thus breaching their duties to the
2 Company. As a result, the Individual Defendants grossly mismanaged Quality
3 Systems.

4 **COUNT VI**

5 **AGAINST DEFENDANT RAZIN FOR UNJUST ENRICHMENT**

6 104. Plaintiff incorporates by reference and realleges each and every
7 allegation set forth above, as though fully set forth herein.

8 105. By his wrongful acts and omissions, Defendant Razin was unjustly
9 enriched at the expense of and to the detriment of Quality Systems.

10 106. Plaintiff, as a shareholder and representative of Quality Systems, seek
11 restitution from Defendant Razin and seeks an order of this Court disgorging all
12 profits, benefits and other compensation obtained by him.

13 **COUNT VII**

14 **AGAINST DEFENDANT PLOCHOCKI FOR INSIDER SELLING**

15 107. Plaintiff incorporates by reference each of the preceding paragraphs
16 as though they were set forth in full herein. During the term of the wrongdoing
17 alleged herein, Defendants Plochocki occupied positions with the Company that
18 made them privy to confidential, proprietary information concerning the
19 Company's financial condition and future business prospects. The foregoing
20 information was a proprietary asset belonging to the Company, which he used for
21 his own benefit and to the detriment of the Company and its shareholders.
22 Notwithstanding his duty to refrain from trading in Quality Systems' common
23 stock under the circumstances, Defendant Plochocki sold his holdings in the
24 Company at artificially inflated prices prior.

25 108. The adverse, non-public material information regarding the
26 Company's current and future earnings prospects was proprietary information
27
28

1 belonging to the Company. In using their knowledge of the Company's
2 undisclosed information to sell his personal holdings of Quality Systems common
3 stock at inflated prices, Defendant Plochocki used the Company's proprietary
4 information for his own benefit. Since the use of the Company's information for
5 his own gain constitutes a breach of fiduciary duty, the Company is entitled to the
6 imposition of a constructive trust on any profits Defendant Plochocki received
7 from his insider sales.

8 109. As a result of his misconduct, Defendant Plochocki is liable to the
9 Company.

10 **PRAYER FOR RELIEF**

11 WHEREFORE, Plaintiff prays for judgment as follows:

12 A. Against all of the Individual Defendants and in favor of the Company
13 for the amount of damages sustained by the Company as a result of the Individual
14 Defendants' breaches of fiduciary duties;

15 B. Awarding to Quality Systems restitution from the Individual
16 Defendants, and ordering disgorgement of all profits, benefits and other
17 compensation obtained by the Individual Defendants;

18 C. Awarding to Plaintiff the costs and disbursements of the action,
19 including reasonable attorneys' fees, accountants' and experts' fees, costs, and
20 expenses;

21 D. Ordering Quality Systems to implement enhanced corporate
22 governance and internal control procedures; and

23 E. Granting such other and further relief as the Court deems just and
24 proper.

25 **JURY DEMAND**

26 Plaintiff demands a trial by jury.
27
28

1 DATED: January 24, 2014

2 **GLANCY BINKOW & GOLDBERG LLP**

3
4 By: 

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VERIFICATION

I, Timothy J. Foss, do hereby verify that I am a holder of common stock of Quality Systems, Inc. and was a holder of such common stock at the time of the wrongs complained of in the foregoing Verified Derivative Complaint ("Complaint"). I have authorized the filing of the Complaint. I have reviewed the Complaint and all of the averments contained in the Complaint regarding me are true and correct upon my personal knowledge and, with respect to the remainder of the averments, are true and correct to the best of my knowledge, information and belief.

I declare under penalty of perjury that the foregoing is true and correct.

DATE: January 23, 2014

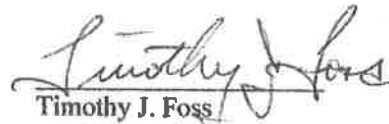

Timothy J. Foss

EXHIBIT A

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Attorney for Plaintiff

SUPERIOR COURT OF THE STATE OF CALIFORNIA
FOR THE COUNTY OF ORANGE

AHMED D. HUSSEIN,

Plaintiff,

v.

SHELDON RAZIN, STEVEN PLOCHOCKI,
QUALITY SYSTEMS, INC. and DOES 1-10,
Inclusive

Defendants.

Case No. 30-2013-00679600-CU-NP-CJC

Judge Luis Rodriguez

**VERIFIED COMPLAINT FOR
DAMAGES FOR:**

- (1) FRAUD AND DECEIT;**
- (2) CONSTRUCTIVE FRAUD;**
- (3) NEGLIGENT
MISREPRESENTATION**
- (4) BREACH OF FIDUCIARY
DUTY**

JURY TRIAL DEMANDED

1 Plaintiff Ahmed Hussein ("Plaintiff" or "Hussein"), by his attorneys, alleges
2 as follows on information and belief, except as to those allegations pertaining to his
3 own knowledge and conduct, which are made on personal knowledge:

4 **INTRODUCTION**

5 1. For more than twenty years, Plaintiff has been the second largest
6 shareholder of defendant Quality Systems, Inc. ("QSI" or "Quality Systems"), an
7 Irvine-based healthcare information technology company traded on the NASDAQ
8 under the ticker symbol QSII. He currently owns approximately 5,687,696 shares of
9 QSI stock, 9.6% of the company's total shares outstanding. Plaintiff suffered
10 enormous losses on his QSI stock on July 26, 2012, when QSI retracted projections
11 of 20%-25% revenue and earnings growth for fiscal 2013 that it had repeatedly made
12 and reconfirmed in public statements made in May, June and July 2012—as recently
13 as just thirteen days before the projections were retracted. The announcement that
14 QSI was retracting its prior projections shocked the market, causing QSI's stock
15 price to plummet by more than 35% in a single day and causing plaintiff to suffer
16 more than \$80 million in losses. Plaintiff seeks to recover those losses from QSI and
17 defendants Sheldon Razin ("Razin"), the founder of the company who now serves as
18 the non-executive chairman of QSI's board of directors and *de facto* CEO of the
19 company, and Steven Plochocki ("Plochocki"), the company's CEO. Razin and
20 Plochocki orchestrated a course of wrongful and fraudulent conduct and breaches of
21 fiduciary duty that culminated in the dissemination in May, June and July 2012 of
22 fiscal 2013 projections of 20%-25% revenue and earnings growth. Those projections
23 were factually baseless when they were made and were retracted less than two weeks
24 after they were last reaffirmed. By this action, plaintiff seeks to hold Razin,
25 Plochocki and QSI responsible for their wrongful conduct and to recover the
26 enormous losses he suffered as a result of that conduct.
27
28

1 and determined that a less experienced sales team, rather than the experienced and
2 proven NextGen sales team, would not be responsible for servicing the company's
3 new Hospital Solutions Divisions. These business decisions, which Razin forced
4 through without significant discussion by or disclosure to the board of directors,
5 made no strategic sense in light of an ongoing wave of consolidation in the healthcare
6 industry and were implemented solely to facilitate Razin's effort to assert further
7 control over the company.

8 6. Frustrated with Razin's decision making, and with the steps he had
9 taken to exert control over the NextGen business unit that had provided the
10 foundation for QSI's growth, Cline announced that he would resign from QSI at the
11 end of 2011. Most of the other executives who were part of the successful NextGen
12 senior management team left the company during the ensuing months. Following
13 Cline's resignation announcement and the implementation of the changes in QSI's
14 strategic plans described above, QSI management, under Razin's direction, sought to
15 perpetuate the market perception that the company was positioned to continue to
16 grow and thrive, when in fact the opposite was happening. For instance, on
17 November 7, 2011, defendant Plochocki told *Investor's Business Daily* that "worries
18 about flattening and saturation" in the healthcare software market "were baseless."
19 According to Plochocki, "there is nothing drying up and there is nothing slowing
20 down."

21 7. At a meeting of the QSI board of directors on January 25, 2012, which
22 plaintiff attended, Plochocki delivered a presentation in which he stated that QSI's
23 growth was "rivalled only by Apple," and said that the company expected to achieve
24 30% revenue and net income growth during its 2013 fiscal year, which began on
25 April 1, 2012.

26 8. The company reaffirmed its highly favorable FY2013 projections in a
27 series of statements made by company representatives, under Razin's direction and
28 with Razin's approval, during the spring and summer of 2012:

- 1 • During a May 17, 2012 earnings call held in conjunction with the
2 release of QSI's fourth quarter and year-end results for the 2012 fiscal
3 year, Plochocki stated that "[w]e remain confident about the growth
4 opportunities, as evidenced by our recent guidance for the 2013 fiscal
5 year. We have stated that we expect revenues to increase 20 to 24%,
6 and earnings per share to grow 20 to 25%."
- 7 • During the same May 17, 2012 earnings call, Paul Holt, QSI's CFO,
8 stated that QSI's fiscal 2013 "guidance range of 20 to 24% revenue
9 growth includes expected growth in all of our business segments and
10 revenue categories," and that QSI was "confident in our ability to
11 deliver on this guidance, which is very consistent with our five year
12 compound annual growth rate of 23%."
- 13 • In proxy materials filed with the SEC on June 26, 2012 containing an
14 "Open Letter to Quality Systems, Inc. Shareholders," which was
15 signed by Razin, Plochocki and five QSI directors aligned with QSI
16 management, QSI again stated that it was "confident about our growth
17 prospects," and that "[f]or fiscal 2013, we expect that revenues will
18 increase in the 20-24% range and we expect earnings per share to grow
19 by 20-25%."
- 20 • In its definitive proxy statement filed with the SEC on July 13, 2012,
21 QSI stated that "for fiscal 2013, we expect that revenues will increase
22 in the 20%-24% range and we expect earnings per share to grow by
23 20-25%." QSI further stated that its projections were based on "an
24 annual planning and budgeting process and a continuous reforecasting
25 process."

26 9. The statements in the July 13, 2012 proxy statement were made even
27 after QSI received a July 3, 2012 comment letter from the SEC which noted that the
28 proxy materials "contain[e]d very specific projections about the future performance

1 of Quality Systems,” and requested that the company “provide support for these very
2 specific projected figures by describing the assumptions underlying them, including
3 any limitations on those assumptions or other factors that may cause them not to be
4 realized.” The SEC letter cautioned that “[s]ince the company and its management
5 are in possession of all facts relating to the company’s disclosure, they are
6 responsible for the accuracy and adequacy of the disclosures they have made.” In a
7 follow-up letter on July 9, 2012, the SEC commented that revised language proposed
8 by QSI provided only “generic support and discussion” and was “confusing.” QSI, at
9 Razin’s direction, nonetheless issued the July 13, 2012 proxy statement containing
10 the same projections for its 2013 fiscal year, without any meaningful description of
11 the assumptions on which the projections were based or any factors that could cause
12 the projections not to be realized.

13 10. At the time of the statements cited above in paragraphs 6 through 8,
14 Razin and QSI management sought to reassure the market and QSI’s shareholders
15 regarding the financial condition and prospects for the company following Cline’s
16 departure and the company’s announcement in May 2012 of disappointing earnings
17 numbers for the fourth quarter of 2012. QSI’s stock price had begun drifting
18 downwards at the end of March 2012, decreasing by 45.9% over the span of four
19 months, from \$43.73 per share on March 30, 2012 to \$23.63 on July 25, 2012.

20 11. But contrary to the public pronouncements and private statements made
21 to plaintiff at board meetings regarding QSI’s financial performance and projected
22 growth, QSI’s revenues and net income in fact were decreasing, not increasing, and
23 the growth projections it had repeatedly trumpeted were in fact completely baseless.
24 During the earnings call on July 26, 2012, Plochocki announced that QSI’s net
25 income for the first quarter of fiscal 2013 had declined by 18% from the prior year,
26 and that its diluted earnings per share had declined 19% from the prior year. On
27 behalf of QSI, Plochocki also retracted the earnings guidance that had been provided
28

1 and reaffirmed in May, June and July 2012, and stated that QSI was “not affirming
2 our previous guidance nor providing revised guidance at this time.”

3 12. No one on QSI’s management team provided any explanation how or
4 why QSI’s actual financial expectations could have deteriorated to such a degree
5 since it made the projections it made in May and June and reaffirmed in the definitive
6 proxy statement it filed on July 13, 2012, *almost two weeks after the end of the first*
7 *quarter and just thirteen days before the earnings release*, that the company was
8 retracting the earnings forecasts altogether. Given that QSI engages in what it
9 describes as a “continuous reforecasting process” based on real-time information
10 concerning QSI revenues and income, the true facts concerning QSI’s business
11 performance must have been known to Razin and his management team when the
12 earlier statements were made. But QSI nonetheless made projections that lacked any
13 objective basis, and in fact were totally inconsistent with QSI’s actual business
14 performance at and before the times the projections were disclosed.

15 13. The retraction of QSI’s previously issued fiscal 2013 earnings guidance
16 in July 2012 came as a total shock to the market and undermined the credibility of
17 QSI’s management team. Following the July 26, 2012 earnings release, and the
18 shock to the market resulting from QSI’s retraction of its earnings guidance, QSI’s
19 stock price immediately plunged from \$23.63 per share to \$15.04 per share, a one-
20 day drop of more than 36.3% that wiped out hundreds of millions of dollars from the
21 market value of the company, causing plaintiff more than \$80 million in losses.

22 14. Plochocki personally profited from the artificial inflation of QSI’s stock
23 price during the first half of 2012. Plochocki—who was privy to real-time
24 information regarding QSI’s actual financial performance sales pipeline—sold QSI
25 stock while the price was artificially inflated as a result of the failure to disclose the
26 company’s true financial condition. On February 23, 2012, Plochocki sold 88,500
27 shares of QSI stock, which was almost all of his holdings, for \$43.99 per share, a
28 price near the all-time high. If Plochocki had retained his shares through the July

1 2012 earnings release, his shares would have been worth less than 35% of the price
2 he obtained.

3 15. Plaintiff has been a shareholder of QSI since shortly after its initial
4 public offering in 1982, and served as a director of the company from 1999 until May
5 2013. As of July 2012, plaintiff held 9,333,700 shares of QSI stock, approximately
6 15.7% of the company's outstanding shares, and was the company's second largest
7 shareholder. Plaintiff remains the company's second largest shareholder to this day.
8 Hussein accepted Razin's invitation to join the board in 1999 based on Razin's
9 commitment to adopt corporate governance reforms designed to limit Razin's control
10 over the company and provide independent oversight over corporate decision
11 making. Since joining the board, Hussein has advocated strategic business decisions
12 and corporate governance reforms that, he believes, would have significantly
13 increased the value of the company. For many years, plaintiff had expressed
14 concerns about QSI's corporate governance practices, its failure to abide by the
15 procedural safeguards in the company's by-laws, the QSI board of directors' refusal
16 to provide any meaningful oversight over Razin and QSI management, and Razin's
17 unchecked control over corporate decision making. Although plaintiff's ownership
18 stake in the company was nearly as large as Razin's, Razin has long ignored
19 plaintiff's input and prevented plaintiff from meaningfully participating in the
20 company's affairs. Although Hussein served on QSI's board of directors, he, unlike
21 Razin and his management team, was not privy to real-time internal information
22 regarding the company's growth model and its projected sales and financial
23 performance, and instead relied on the accuracy of the information that was provided
24 in the company's public statements and in information provided to him as a member
25 of the QSI board of directors.

26 16. Due to ongoing disagreements with Razin and the QSI board of
27 directors regarding management and corporate governance issues, plaintiff
28 considered selling his QSI stock and discussed a potential sale of his stock with his

1 investment bankers in late 2011 and early 2012; he disclosed the possibility of selling
2 his QSI stock in a November 10, 2011 13D filing. Ultimately, he decided to retain
3 the stock based on representations regarding QSI's expected future growth that were
4 made by QSI management and that turned out to be totally baseless.

5 17. On June 15, 2012, plaintiff informed QSI's board of directors that he
6 was nominating a rival slate of directors for the company's board of directors, and
7 that he would be sponsoring a proxy contest in support of the election of those
8 directors at the annual meeting that was to be held in August 2012. By reassuring the
9 market regarding QSI's financial condition and growth prospects—and, as further
10 alleged below, by downplaying the management and corporate governance concerns
11 raised by plaintiff and seeking to undermine plaintiff's credibility in the proxy
12 contest through false and misleading statements about plaintiff—Razin and QSI
13 management sought to increase the prospects for the re-election of the incumbent
14 directors and thereby to further consolidate Razin's control over the company.

15 18. Plaintiff was completely surprised by the company's CEO's July 26,
16 2012 retraction of projections which the same CEO had repeatedly provided to the
17 market and reconfirmed as recently as thirteen days earlier. Although plaintiff had
18 significant concerns about Razin and QSI management, and particularly about
19 Razin's unfettered control over the company and the long-term threat that Razin's
20 decision making posed to the company's potential success, Hussein had no idea that
21 the company's financial projections had no factual basis, as he had relied on Razin's
22 management team to provide truthful and accurate information regarding the
23 company and its actual and projected financial performance. Had he known the truth
24 about QSI's baseless projections, Hussein would have emphasized that fact in the
25 proxy materials he submitted in support of his proposed slate of directors and would
26 have brought the baseless projections to the attention of the company's board and its
27 investors.
28

1 26, 2012, Hussein was forced to sell 3,646,004 shares of QSI stock that were held in
2 a margin account. Hussein continues to hold approximately 5,687,696 QSI shares,
3 approximately 9.6% of QSI's outstanding stock, and has been the company's second
4 largest shareholder for more than twenty years.

6 DEFENDANTS

7 24. Defendant Sheldon Razin is the non-executive chairman of QSI's board
8 of directors, and is a resident of Orange County, California. Razin was the founder
9 of QSI and served as its Chief Executive Officer until March 2000, when the QSI
10 Board of Directors terminated his employment following misconduct that included an
11 unauthorized attempt to sell the company and falsely denying that he had done so to
12 the company's board of directors.

13 25. Defendant Steven Plochocki is QSI's Chief Executive Officer ("CEO"),
14 and is a resident of Orange County, California.

15 26. Defendant QSI is a California corporation based in Irvine, California.
16 QSI is engaged in the development and marketing of healthcare management
17 systems, operating through four divisions (QSI Dental, NextGen, Hospital Solutions,
18 and Revenue Cycle Management (RCM) Services) that serve various sectors of the
19 healthcare industry. QSI is a public company whose shares trade on NASDAQ.

20 27. The true names and capacities of defendants named as Does 1-10,
21 inclusive, whether individual, corporate, associate, or otherwise, are presently
22 unknown to plaintiff. Plaintiff therefore sues these defendants by these fictitious
23 names. Plaintiff will amend the Complaint to substitute true names and capacities
24 when they have been ascertained. Plaintiff is informed and believes, and on the basis
25 of that information and belief alleges, that each of the fictitiously-named defendants
26 is responsible in some manner for the occurrences herein alleged.

27 28. By reason of their positions and relationships with QSI and plaintiff,
28 including their membership or representation on QSI board of directors, their status

1 as QSI officers, their access to material non-public information concerning QSI, and
2 their control of QSI, defendants were and are fiduciaries to plaintiff. Defendants
3 owed to plaintiff the obligations of utmost good faith, fair dealing, fidelity, trust,
4 loyalty and due care and were required to use their powers (1) to act in furtherance of
5 the best interests of plaintiff and other shareholders of QSI; and (2) to provide
6 plaintiff with complete and accurate information concerning QSI.

7 29. By engaging in the wrongful conduct alleged herein, defendants pursued
8 a common course of conduct, acted in concert with each other, and conspired with
9 one another, in furtherance of their common plan, scheme or design. In addition,
10 each of the defendants aided and abetted each other in breach of their respective
11 fiduciary duties, as alleged herein. In aiding and abetting the other defendants'
12 breaches of fiduciary duties, the defendants rendered substantial assistance to the
13 other defendants with knowledge or in reckless disregard of the breaches of duty
14 committed by such defendants.

15 **FACTUAL BACKGROUND**

16
17 30. Hussein has been a shareholder of QSI since around the time of its
18 initial public offering ("IPO") in 1982. Hussein subsequently purchased additional
19 QSI shares, and had invested in excess of \$8 million in the company by the mid-
20 1990s. Hussein invested in QSI because of a keen interest in the use of technology to
21 improve the delivery of healthcare services, and a belief that QSI had the potential to
22 become a leading player in that field. Until 1999, despite owning nearly 20% of the
23 company and having the right to elect two directors through cumulative voting,
24 Hussein remained a relatively passive investor in the company, and did not request to
25 be nominated to the company's board of directors, did not exercise his cumulative
26 voting rights, and generally did not involve himself in issues relating to the corporate
27 governance of QSI.
28

1 31. Razin, the founder and largest shareholder of QSI, served as QSI's CEO
2 from its inception in 1974 until March 2000, and has served as the Chairman of
3 QSI's Board of Directors from 1974 to the present.

4 32. In May 1999, Razin traveled to Egypt to ask Hussein, who then owned
5 18.5% of the company's outstanding stock, to join the QSI board of directors. At the
6 time, QSI was embroiled in securities litigation involving allegations that, *inter alia*,
7 Razin had made false statements in connection with the 1996 public offering of QSI
8 stock, as well as a shareholder derivative lawsuit alleging that QSI directors had
9 breached their fiduciary obligations by seeking to entrench themselves and by failing
10 to maximize shareholder value. One of QSI's largest shareholders at the time,
11 Lawndale Capital Management LLC, had filed a Schedule 13D amendment in which
12 it stated that the QSI board of directors had "failed to do its job largely as a result of
13 dysfunctional and not sufficiently independent board composition and a lack of any
14 or poor corporate governance practices." Lawndale had indicated that it would seek
15 changes to QSI's senior management and to the composition of its board of directors,
16 as well as corporate governance reforms. Hussein agreed to help resolve the dispute
17 if Razin would agree to corporate governance reforms, alleged in more detail below,
18 under which Razin would relinquish his control over the company and agree to have
19 the company managed under the direction of a truly independent board of directors.

20 33. On August 6, 1999, Hussein, Lawndale and the company ultimately
21 reached a written Memorandum of Understanding ("MOU"), under which Razin
22 would resign as CEO as soon as a replacement could be found, Razin would remain
23 on the board of directors, and Razin would agree to support the corporate governance
24 reforms requested by Hussein. The corporate governance reforms required by the
25 MOU included, *inter alia*, the creation of an independent board of directors that
26 would be responsible for overseeing the company, the removal of a "poison pill" that
27 reinforced Razin's ability to prevent independent investors from gaining control over
28 the company, the adoption of corporate by-laws that would protect the interests of

1 QSI shareholders, and Razin's resignation from his position as the company's CEO
2 as soon as a replacement could be found.

3 34. The corporate governance provisions included in the MOU included
4 requirements that: (i) at least three-quarters of the members of the board of directors
5 would be independent; (ii) the attendance of at least half of the directors would be
6 required for any corporate action to be valid; (iii) the principal committees of the
7 board, including the audit, nominating, compensation and transaction committees,
8 would be comprised solely of independent directors; (iv) a separate meeting of the
9 independent directors would be held at least as frequently as meetings of the full
10 board; and (v) one independent director (which, initially, was Hussein) would serve
11 as the Co-Chairman of the board and the Lead Director whenever the Chairman was
12 not an independent director, preside over committees of the board, and serve on all
13 board committees. The MOU sought to limit Razin's further influence over the
14 corporation by providing that (i) he would resign his position as CEO as soon as a
15 new candidate was identified and elected; (ii) he would continue to serve as the
16 Chairman of the board of directors for two years, and for any further period only if
17 requested to do so by the board; and (iii) he could not serve on any committees of the
18 board of directors because he was not qualified to serve as an independent director.
19 Under the MOU, any modification or repeal of the corporate governance provisions
20 required a majority vote of the company's shareholders or a two-thirds vote of both
21 the entire board of directors and the independent directors. The MOU stipulated that
22 these corporate governance provisions would become an integral part of the
23 company's by-laws.

24 35. Within months after agreeing to the MOU, Razin contravened those
25 restrictions by unilaterally seeking to orchestrate a sale of QSI without prior notice to
26 or approval by the board of directors. In response to Razin's insubordination, the
27 QSI board of directors, in a unanimous decision supported even by the directors
28 selected by Razin, immediately terminated Razin from the QSI CEO position in

1 March 2000 and agreed to issue a written reprimand of Razin for his insubordinate
2 violation of the requirements of the MOU. Razin was replaced by interim CEO
3 Patrick Cline, the head of QSI's NextGen business unit, which had developed out of
4 two acquisitions completed by QSI in the mid-1990's. However, because he
5 continued to be the largest QSI shareholder, Razin remained on the QSI board of
6 directors.

7 36. In 2002, Razin had a dinner meeting with Hussein in Irvine, California,
8 and during that meeting urged Hussein to support a request for the company to re-
9 purchase Razin's outstanding shares. Hussein persuaded Razin that the re-purchase
10 price proposed by Razin was too low, that the company was positioned for
11 tremendous growth, and that Razin would benefit substantially from retaining rather
12 than selling his shares. Razin consequently abandoned the idea of selling his shares
13 and remained on the board of directors.

14 37. Following his dinner meeting with Hussein in 2002, and his decision to
15 abandon his plans to sell his QSI stock, Razin began to reassert control over the
16 company. That effort culminated at the 2004 annual meeting of QSI's shareholders,
17 during which Razin orchestrated the appointment of a new slate of directors who
18 would abide by his instructions, in defiance of the MOU and by-laws of the
19 corporation and the rights of Hussein and the other independent directors under
20 California law. Razin did so after two of the four members of the nominating
21 committee purported to declare themselves a "subcommittee," despite lacking the
22 required majority support for that proposal, and then proceeded to nominate the
23 directors supported by Razin. This was done without approval of the full board of
24 directors or a majority of the independent directors or the full nominating committee,
25 in contravention of the corporate governance reforms required by the MOU and the
26 by-laws of the corporation and the rights under California law of the directors who
27 opposed the nominating process, and over the written and vocal objections of a three-
28

1 member majority of the independent directors, including two of the four members of
2 the nominating committee.

3 38. After securing the appointment of the slate of directors aligned with him
4 at the September 2004 annual meeting, Razin's new slate of directors proceeded to
5 adopt amendments to the corporate by-laws to enable Razin to be deemed an
6 "independent director," notwithstanding his obvious lack of independence.
7 Previously, Razin did not qualify as an independent director, but Razin persuaded his
8 new slate of directors to change the company's by-laws so that, under a newly
9 adopted definition, Razin could be considered independent and participate in the
10 corporate decision making functions that were to be controlled by independent
11 directors under the terms of the MOU. The decision to revise the by-laws to allow
12 Razin to serve as an independent director was made at a board meeting during which
13 Razin enticed the company's directors to support his proposals with cash payments
14 and stock option grants that provided the directors with substantial compensation
15 worth far in excess of generally accepted levels of director compensation for a
16 company of QSI's size and financial performance and much more than *ten times* the
17 compensation the directors previously received, even though the directors had
18 already been nominated and elected and had accepted their positions based on the
19 previously existing compensation terms. Notwithstanding the QSI directors'
20 willingness to designate Razin an "independent" director, Razin in fact is not, and
21 never legitimately has been, an independent director, notwithstanding that title,
22 because (1) he founded the company, served as its CEO, served as the Chairman of
23 the company's board of directors throughout its history, and at all times has been its
24 largest individual shareholder; (2) the by-laws of the corporation had, since the
25 inception of the company, precluded any former employee from being considered an
26 independent director; and (3) Razin's son, David Razin, served and functioned as an
27 executive officer of QSI, which under applicable NASD rules precluded Razin from
28 being independent, although David Razin's executive status was inappropriately,

1 inexplicably and surreptitiously modified without board knowledge, discussion or
2 approval to facilitate Razin's effort to become an independent director.

3 39. Also following the appointment of Razin's new beholden slate of
4 directors, the board, at Razin's request and with the support of the directors he had
5 selected, and over Hussein's objection, increased the size of the board to add two
6 members of the management team to the board of directors, thereby further
7 bolstering the ability of Razin to exert control over the company by ensuring that a
8 majority of the board would consist of Razin and the interested directors he selected.
9 These changes to the corporate by-laws were totally inconsistent with the MOU,
10 which had been designed to limit Razin's control over the company as a result of his
11 prior conduct.

12 40. Since beginning to reassert control over QSI's corporate decision
13 making in 2002, and increasingly after the new slate of directors supported by Razin
14 was appointed in 2004, Razin has used his power over the QSI board of directors to
15 implement a series of decisions that served Razin's interests and reinforced Razin's
16 control over the company, at the expense of the best interests of the company and its
17 shareholders. Those decisions included, *inter alia*:

- 18 • Restructuring the composition of board committees to increase Razin's
19 power and influence over the company by ensuring that all committees
20 would be chaired by the directors most closely aligned with Razin and
21 that there would be no ability for Hussein or his nominees influence
22 corporate decision making;
- 23 • Circumventing a decision, approved by a 6-1 vote at a special board
24 meeting held in June 2004, to replace the corporate counsel chosen by
25 Razin with a new independent counsel and to retain the new counsel to
26 investigate inaccuracies in board minutes and legal recommendations
27 prepared by the prior counsel by causing QSI management to fail to
28 fund the retainer for the independent counsel;

- 1 • Denying Hussein any opportunity to serve on standing board
2 committees, while all other independent directors, except Hussein's
3 nominee Murray Brennan, served on two or more committees;
- 4 • Changing corporate by-laws to place decision making power in so-
5 called "independent directors' committees" controlled by Razin that
6 were independent in name only, while excluding Hussein from
7 participation in those committees;
- 8 • Ignoring the procedural requirements of the MOU by removing
9 Hussein as the Lead Director and replacing him with a director aligned
10 with Razin, even though that decision was not approved by a majority
11 of the independent directors and was thus invalid;
- 12 • Refusing to appoint independent counsel to investigate and assess
13 Razin's claimed "independence," notwithstanding repeated requests by
14 Hussein and Hussein's willingness to fund such an investigation;
- 15 • Substantially increasing the compensation packages for QSI executives
16 under which the executives would receive significantly higher
17 compensation than they had previously even if the company's business
18 performance deteriorated;
- 19 • Substantially increasing the compensation packages for QSI directors
20 to levels far in excess of the amounts QSI directors had previously
21 made, and more than ten times in excess of the compensation that the
22 directors were to have received when they joined the board; and
- 23 • In early August 2012, NextGen president Scott Decker, one of the key
24 executives along with Cline in the NextGen business that had been
25 responsible for the growth of QSI, informed Razin and QSI
26 management and his subordinates that he was resigning from the
27 company because of objections to Razin claiming the status of an
28 independent director while maintaining an office in the company and

1 functioning as its CEO. Razin and Plochocki did not inform the full
2 QSI board of this fact and delayed announcing Decker's resignation
3 until after the contested board election at the annual shareholders
4 meeting held in mid-August 2012. Razin and Plochocki engaged in this
5 subterfuge in order to ensure the election of Razin's slate of directors,
6 thereby depriving Hussein and the company's shareholders of the right
7 to a fair and informed election.

8 41. In 2006, Cline, on behalf of QSI, and based on Razin's instructions,
9 approached Hussein to discuss the issues Hussein had raised regarding the contested
10 board election in 2005, the validity of the prior board selection, QSI's corporate
11 governance issues, and QSI's continued use of the corporate counsel who was
12 beholden to Razin despite the prior decision to terminate him and concerns that
13 Hussein had raised regarding the corporate counsel's lack of independence and the
14 accuracy of the minutes and legal recommendation he had prepared. Ultimately,
15 Hussein and QSI, under Razin's direction, entered into a Settlement Agreement
16 relating to those issues. Under the Settlement Agreement, which resolved a lawsuit
17 that Hussein had previously initiated relating to those issues and his 2005 proxy
18 context, QSI agreed to nominate the independent directors proposed by Hussein, to
19 ensure that one-half of the members of the nominating and compensation committees
20 of the board would be nominated by Hussein, and to terminate the corporate counsel
21 chosen by Razin and appoint new outside counsel from a national law firm to attend
22 board meetings and prepare the minutes of those meetings. In conjunction with the
23 Settlement Agreement, Razin traveled to New York to meet with Hussein and told
24 him that he viewed Hussein as an important partner in the business, that he would
25 abide by the previously adopted corporate governance reforms, including the
26 termination of Razin's chosen corporate counsel, and that Hussein would chair the
27 transactions committee of the board that would be responsible for considering all
28 material transactions. Razin never followed through on those commitments, despite

1 Hussein's requests that he do so. The transactions committee never held substantive
2 discussions regarding any transactions completed after the execution of the 2006
3 Settlement Agreement, even though Razin and his management team completed
4 several material transactions, including one which ultimately resulted in a write-off
5 of approximately \$17.4 million in 2013.

6 42. After the Settlement Agreement was executed, the company did retain
7 Gibson, Dunn & Crutcher LLP ("GDC") as its new corporate counsel. However,
8 contrary to the main considerations underlying Hussein's decision to enter into the
9 Settlement Agreement, QSI never terminated its prior counsel, and GDC resigned
10 shortly after its appointment. Upon GDC's resignation, Razin's hand-picked personal
11 lawyer continued to serve as corporate counsel, notwithstanding Hussein's objection
12 and contrary to the requirements of the Settlement Agreement. Hussein offered to
13 pay for an arbitrator to determine whether the continued appointment of the prior
14 counsel was consistent with the requirements of the 2006 Settlement Agreement, but
15 Razin and his board refused.

16 43. Since the 2006 Settlement Agreement, Razin has continued to exploit
17 the lack of any truly independent oversight by the directors he selected to implement
18 significant corporate actions without any prior notice to or direction to the full board
19 and without any regard for the procedural requirements and protections set forth in
20 the company's by-laws. For instance, in September 2009, the QSI board of directors
21 was given two days' notice in advance of a scheduled board meeting of the decision
22 to appoint Philip Kaplan to a new Chief Operating Officer ("COO") position, along
23 with a copy of a proposed employment contract for Kaplan. Until that time, Kaplan
24 had served as an independent director and chairman of the nominating committee,
25 but he resigned those positions shortly before the meeting. Hussein, despite serving
26 as a director, was not given any prior notice of the decision to create the COO
27 position, the nature of the search for a new COO, or the manner in which the terms of
28

1 Kaplan's proposed compensation were negotiated and determined to be fair and
2 reasonable.

3 44. Just six months later, Razin orchestrated the termination of Kaplan from
4 the newly created COO position in an extraordinarily unusual, flawed and deceptive
5 fashion that was completely lacking in transparency. At the May 26, 2010 board
6 meeting, Razin proposed the creation of a new committee called the "Independent
7 Directors Compensation and Executive Personnel Committee," on which all of the
8 independent directors, including Hussein and his nominee Dr. Murray Brennan, were
9 to serve. The creation of this committee was not on the agenda distributed in advance
10 of the meeting, and the materials for the meeting did not provide any explanation of
11 the reasons for creating this new committee. Hussein, Brennan and Davis were
12 falsely told by Razin that the only reason to form this new committee was to resolve
13 any disputes between the directors on the compensation committee. Hussein,
14 Brennan and Davis also were not told that the new committee would have the power
15 to remove corporate officers, and the minutes of the meeting did not reflect that the
16 committee would have such powers or that the committee could be convened without
17 prior notice to its members. Hussein questioned whether there was any need to form
18 the new committee in light of the fact that the existing compensation committee had
19 three members, and thus could not be deadlocked, and in light of the existence of a
20 standing seven-member independent directors committee that was chartered by the
21 by-laws to resolve disputes between the members of any independent directors
22 committee, including the compensation committee. Notwithstanding the fact that the
23 committee actually was being formed to execute Kaplan's termination, Razin told
24 directors Hussein, Brennan and Davis that the committee was being formed to
25 resolve disputes among the directors on the compensation committee, and the
26 minutes of the board meeting reflected Razin's false statement of the purpose for
27 forming the committee.
28

1 45. Hussein and Brennan had scheduling conflicts that required them to
2 leave prior to the end of the May 2010 meeting. Before departing the meeting they
3 inquired whether any additional material action was to be taken, and Razin told them
4 that no further action would take place. However, Razin did not inform Hussein and
5 Brennan that Razin had met with three directors aligned with him the previous day at
6 QSI headquarters and, together with outside counsel and an employment consultant,
7 had discussed and agreed to the termination of Kaplan. Razin did not bring those
8 prior discussions to the attention of Hussein, Davis or Brennan, and those discussions
9 and the reasons for them were never discussed or approved in advance by the QSI
10 board. Nothing in the QSI by-laws allowed the use of corporate resources for such a
11 meeting, and proceeding with that meeting without notice to or the involvement of
12 three of the independent directors was a violation of the rights of the three
13 independent directors under California law. QSI's outside corporate counsel and the
14 members of the board of directors aligned with Razin who were present at the
15 meeting who knew the true purpose for forming the new committee, and the powers
16 that the new committee intended to assert, but remained silent and thus enabled Razin
17 to mislead independent directors Hussein, Brennan and Davis regarding the real
18 reasons for forming the committee. After Hussein and Brennan left the meeting,
19 Razin immediately convened a meeting of the newly created committee, without any
20 notice to Hussein and Brennan. At the new committee meeting, Razin proposed
21 asking for Kaplan's resignation, and he did so without any notice to or input from
22 Hussein or Brennan. Shortly after the meeting, Kaplan resigned. The "Independent
23 Directors Compensation and Executive Personnel Committee" never met again after
24 May 26, 2010, and apparently was created for the sole purpose of facilitating Razin's
25 decision to terminate Kaplan's employment, for reasons that were never explained to
26 Hussein, Brennan, or the full board of directors.

27 46. In May 2010, an independent director, Joseph Davis, alerted the QSI
28 board of directors that Razin had, for the past seven years, falsely certified that he

1 was a full-time employee of the company in order to obtain health insurance
2 coverage for himself and his wife under the company's benefit plan. Razin had
3 accepted those benefits, the value of which totaled at least \$75,000, without prior
4 knowledge or approval of the board of directors or any of its committees, and in
5 violation of company policy. Those false certifications of employment status were,
6 of course, fundamentally inconsistent with Razin's contemporaneous claim that he
7 was qualified to serve as an "independent" director of the company. Davis also
8 suggested that Razin may be using corporate resources for his personal benefit,
9 without board approval. Davis introduced a resolution seeking an independent
10 investigation of Razin and Razin's qualifications to serve as an independent director,
11 which Hussein seconded, and which also was supported by Brennan, but the
12 resolution was voted down by Razin and the directors aligned with him, with Razin
13 casting the deciding vote, even after Hussein volunteered to fund the investigation
14 himself. Razin did not recuse himself from that vote despite a clear conflict of
15 interest, and he introduced a successful resolution to strike any mention of the
16 resolution from the minutes of the meeting, despite the fact that the resolution
17 proposed by Davis was an agenda item and was voted upon and supported by three of
18 the seven independent directors, or half of the independent directors excluding Razin.

19 47. Davis was subsequently not nominated for re-election to the board at the
20 next annual meeting of QSI's shareholders. After the company became self-insured,
21 the board subsequently approved a resolution, proposed by Razin, under which Razin
22 and his wife receive life insurance benefits. Without any prior board approval, and
23 consistent with his past practice of using corporate resources for personal ends, Razin
24 directed the company's corporate counsel to prepare the proposal, despite his status
25 as an independent director without any authority to do so. This arrangement also
26 contravened a 2000 severance agreement under which Razin only was to receive
27 insurance for the three years following his termination. Under this new arrangement,
28

1 there is no independent check on Razin's receipt of insurance benefits, and the
2 ultimate decision whether to provide him with benefits is under his control.

3 48. Razin additionally denied Hussein any meaningful opportunity to
4 participate in QSI's decision making, despite Hussein's substantial ownership of QSI
5 stock and his service as a QSI director. Razin excluded Hussein from the independent
6 directors committees, removed Hussein from QSI board committees, and determined
7 that important decisions regarding QSI's business would be made within independent
8 directors committees from which Hussein was excluded and that were comprised of
9 directors who were hand-picked by Razin and loyal to him.

10 49. Between 2004 and 2013, Hussein was not appointed to any board
11 committees except the transaction committee, which he chaired between 2006 and
12 2008 (a period during which that committee never materially considered any
13 transactions because the QSI board, at Razin's request, transferred the powers of the
14 transaction committee to company management), and the Independent Directors
15 Compensation and Executive Personnel Committee (which, as alleged above, was
16 created in 2010 and met once without prior notice). In August 2012, Razin created
17 an independent directors executive committee that included all of the independent
18 directors except Hussein. By excluding Hussein from QSI board committees, while
19 assuring that all meaningful director decisions were made within the committees
20 rather than the full board, Razin excluded Hussein from QSI's corporate decision
21 making and undermined Hussein's rights as a substantial shareholder with a right
22 under California law to representation on the QSI board.

23 50. Razin also used the facilities and resources of the corporation, as well
24 as outside resources such as consultants and lawyers, to conduct board committee
25 meetings without notifying Hussein, Brennan or Cline in advance, or providing them
26 with minutes of what had transpired at those meetings.

27 51. Razin also has engaged in a longstanding campaign to disparage, belittle
28 and undermine Hussein and the corporate governance concerns he has raised by

1 disseminating false and misleading information about Hussein in an effort to
2 undermine Hussein's credibility and reinforce Razin's control over the company. For
3 instance, at Razin's behest, QSI claimed in public filings that Hussein had violated
4 company policy by holding his stock in margin accounts while he served as a
5 director, and falsely suggested that it was previously unaware of Hussein's margin
6 accounts. However, QSI knew Hussein had always held his stock in margin
7 accounts, including long prior to the adoption of any such policy, and in fact had
8 worked with Hussein to establish those accounts in the first place. Razin and his
9 corporate counsel also had engaged in prior unsuccessful efforts over a ten year
10 period to adopt policies restricting the use of margin accounts. Razin and QSI also
11 knew that the company had no right to impose its newly established policy regarding
12 margin accounts on Hussein, who had an unfettered right to serve as a QSI director as
13 a result of his stock ownership and immediately informed the company that he would
14 not abide by the new policy when it was adopted. Additionally, in opposing the slate
15 of director nominees Hussein put forward in his 2012 proxy statement, QSI, at
16 Razin's behest, made false and misleading claims about Hussein and decades-old
17 legal proceedings in which Hussein had been involved in an attempt to undermine
18 Hussein and his reform proposals and impugn Hussein's integrity, motives and
19 character. QSI's actions caused tremendous and irreparable harm to Hussein,
20 including reputational harm in the investor community, financial harm resulting from
21 lost investment opportunities, destroyed business relationships, and financing
22 arrangements that were suddenly cancelled on highly unfavorable terms without prior
23 notice and at inopportune times, and preventing the election of the highly qualified
24 slate of independent directors Hussein had proposed in the 2012 proxy contest.

25 52. Razin's actions since 2002 have resulted in the creation of a board of
26 directors and executive management team that is completely beholden to him and
27 totally incapable of standing up to him or providing meaningful oversight over the
28 company. As a result of Razin's actions, the QSI board of directors does nothing to

1 ensure the validity of the company's business plans, financial and operational results,
2 and financial projections.

3 53. Despite Razin's usurpation of the corporate governance reforms that had
4 been implemented at QSI in 1999, and despite the absence of meaningful oversight
5 from the board and management team that were beholden to him, QSI's business
6 actually performed well while Cline and his team were responsible for the operation
7 of the NextGen business. During Cline's leadership of the NextGen business, that
8 business unit enabled QSI to enjoy a period of sustained growth between 2000 and
9 2011. Between 2000 and 2009, the NextGen business unit led by Cline grew by
10 1300%, while the remainder of QSI's business actually shrank by 20%. Cline's
11 NextGen business unit ultimately accounted for approximately 95% of QSI's
12 revenues and profits.

13 54. The success of QSI during Cline's leadership of NextGen was also
14 reflected in the company's stock price. Between 2008 and 2011, QSI's revenues and
15 profits grew by at least 20% per year, and the company's stock price and market
16 capitalization more than doubled. QSI's stock price peaked at \$50.70 per share on
17 September 30, 2011, reflecting a market capitalization of \$3 billion. At that time,
18 Hussein's QSI stock had a market value in excess of \$470 million.

19 55. In July 2011, as Razin was progressively reasserting control over QSI's
20 operations, and in particularly the NextGen division, Cline announced his resignation
21 from QSI, effective at the end of the year. Most of the QSI executives involved in
22 the successful NextGen business resigned during the ensuing months. Razin and QSI
23 management recognized that the market viewed Cline and his management team as
24 important to QSI's continued success, and accordingly sought to reassure the market
25 that QSI would continue to grow and thrive under Razin's control. For instance, in a
26 November 7, 2011 interview, defendant Plochocki, QSI's CEO, told *Investor's*
27 *Business Daily* that "worries about flattening and saturation" in the healthcare
28 software market "were baseless." According to Plochocki, "there is nothing drying

1 up and there is nothing slowing down.” Plaintiff read those statements at or around
2 the time they were made, and relied upon them in deciding to retain his QSI stock.

3 56. Later, at a meeting of the QSI board of directors on January 25, 2012,
4 which plaintiff attended, Plochocki delivered a presentation in which he stated that
5 QSI’s growth was “rivaled only by Apple.” Plochocki further said that the company
6 had budgeted for 30% revenue and net income growth during its 2013 fiscal year,
7 which would begin on April 1, 2012.

8 57. QSI reaffirmed its favorable revenue and net income projections during
9 a May 17, 2012 earnings call that plaintiff listened to and relied upon in deciding to
10 retain his stock. During that earnings call, Paul Holt, QSI’s CFO, stated that QSI’s
11 revenue and earnings growth for FY2013 were projected to be in the 20%-25%
12 range.

13 58. In a proxy statement issued on June 26, 2012—just four days before the
14 end of the first quarter of QSI’s 2013 fiscal year—QSI reiterated that “for fiscal
15 2013, we expect that revenues will increase in the 20-25% range and we expect
16 earnings per share to grow by 20-25%.” Hussein specifically read and relied upon
17 that proxy statement when deciding to refrain from selling his QSI shares.

18 59. QSI stood by those projections even after its first quarter ended, and
19 even after it received a July 3, 2012 comment letter from the SEC noting that the
20 company’s proxy materials “contain[e]d very specific projections about the future
21 performance of Quality Systems” and urged the company to “provide support for
22 these very specific projected figures by describing the assumptions underlying them,
23 including any limitations on those assumptions or other factors that may cause them
24 not to be realized.” The SEC comment letter warned QSI and its directors and
25 management team who signed the proxy materials that “[s]ince the company and its
26 management are in possession of all facts relating to the company’s disclosure, they
27 are responsible for the accuracy and adequacy of the disclosures they have made.” In
28 a subsequent letter dated July 9, 2012, the SEC commented that QSI had provided

1 only “generic support and discussion” in support of its projections and that the stated
2 basis for the projections was “confusing.” Nonetheless, QSI, under Razin’s
3 direction, issued its definitive proxy statement on July 13, 2012, two weeks after the
4 end of the first quarter, in which it reaffirmed the prior projections.

5 60. Razin served as the chairman of the special committee that authored and
6 was responsible for QSI’s June 26, 2012 proxy materials and signed the proxy
7 materials on behalf of that committee. The special committee responsible for the
8 proxy materials was formed by Razin and included only directors who were closely
9 aligned with Razin and chosen by him. In addition to his formal responsibilities,
10 Razin in fact serves as the *de facto* CEO of the company. Without board
11 authorization, Razin maintains an office at QSI, controls and directs the use of QSI
12 facilities and resources, and manages the company on a day-to-day basis. All
13 significant decisions regarding the direction of the company are made by Razin, and
14 the company’s executive officers do not make public statements regarding the
15 company, its operations, or its financial performance or future prospects without
16 Razin’s approval.

17 61. At the end of March 2012, QSI’s stock price had begun to decline.
18 Between March 30, 2012 and July 2012, QSI’s stock price decreased from \$43.73 per
19 share to \$23.63 per share, a 45.9% decline. That decline in QSI’s stock price cannot
20 be explained by overall market performance or the publicly available information
21 regarding the performance of QSI’s competitors during that time frame, or by any
22 publicly available information regarding QSI’s own financial performance that was
23 disseminated during that period. QSI’s CEO, defendant Plochocki, regularly
24 communicates with the institutional investor community, and some of the
25 institutional investors that previously invested in QSI and with whom Plochocki
26 regularly communicates sold sufficient quantities of QSI stock during that period to
27 cause the price decline.
28

1 62. Razin's management team made the false statements in May, June and
2 July 2012 regarding QSI's fiscal 2013 earnings projections after consulting with
3 Razin and obtaining his approval, as they did on all important matters pertaining to
4 the management of QSI. Razin and his management team were eager to assure the
5 market that QSI's growth and financial performance would continue and to ensure
6 that Razin would maintain his ability to control QSI's future direction. The earnings
7 projections in QSI's June 26, 2012 letter to shareholders, reaffirmed in the definitive
8 proxy statement filed on July 13, 2012, were made in the context of a proxy contest,
9 which plaintiff had announced to the QSI board of directors on June 15, 2012.
10 Plaintiff was sponsoring a rival slate of nominees to the QSI board of directors that, if
11 successful, would have substantially curtailed Razin's power over the company. By
12 reassuring investors regarding QSI's financial performance and growth prospects,
13 Razin and his management team sought to dissuade QSI investors from supporting
14 plaintiff's proposed slate of directors.

15 63. Notwithstanding the public statements and communications to plaintiff
16 at QSI board meetings, there in fact was no factual basis whatsoever for the
17 statements that "there is nothing slowing down" as of November 2011, or for the
18 projections of 20%-25% revenue and net income growth for the 2013 fiscal year that
19 were made in May, June and July 2012. Razin and his management committee had
20 access to real-time information concerning QSI's operating and financial
21 performance, and must have known that those statements—the last of which made
22 *two weeks after the first quarter had ended*—had no factual basis and were false
23 when made. It is simply impossible that the financial results that the company
24 disclosed on July 26, 2012 beset the company only after the June 26, 2012 statements
25 and were not known to the company at least by July 13, 2012, and it is equally
26 impossible that Razin and his management team did not know there was no factual
27 basis whatsoever for the revenue and earnings projections that were made in May,
28

1 June and July 2012 and reaffirmed on July 13, 2012 when the prior statements were
2 made.

3 64. In fact, as Razin and his management team knew, QSI's financial
4 performance had begun slowing down in late 2011. Contrary to the growth
5 projections provided to Hussein and the marketplace, QSI's new bookings had, in
6 fact, begun declining a year earlier, in the first quarter of fiscal 2012, and QSI's sales
7 pipeline had begun declining in the fourth quarter of fiscal 2012.

8 65. During the earnings call held on July 26, 2012, Plochocki announced
9 that QSI's net income for the first quarter of fiscal 2013 had declined by 18% from
10 the prior year, and that its diluted earnings per share had declined 19% from the prior
11 year. Plochocki said the results were attributable to "lower than expected revenue
12 from large, higher margin software system sales." On behalf of QSI, Plochocki also
13 retracted the earnings guidance that had been provided in May, June and July 2012,
14 and reaffirmed less than two weeks earlier on July 13, 2012, and stated that QSI was
15 "not affirming our previous guidance nor providing revised guidance at this time."
16 This retraction by the CEO of the company, without any explanation of any change
17 in the company's prospects that could account for the deviation from the earnings
18 guidance that the company had re-affirmed as recently as just thirteen days earlier,
19 *destroyed the credibility of QSI management* and the value of QSI shares in the
20 marketplace, causing a 36.3% price drop in one day and causing the company to
21 trade at a substantial discount to the price to earnings ratios at which its key
22 competitors were trading.

23 66. The retraction of QSI's previously issued earnings guidance, without
24 any explanation or the identification of any change in the company's sales or
25 financial performance during the thirteen-day period since it had last re-affirmed its
26 fiscal 2013 earnings guidance, came as a total shock to the market. On July 26, 2012,
27 QSI's stock price immediately plunged from \$23.63 per share to \$15.04 per share, a
28

1 one-day 36.3%% drop that wiped out hundreds of millions of dollars in shareholder
2 value.

3 67. The disclosure of accurate information concerning QSI's financial
4 performance and growth prospects, coupled with the revelation that the information
5 previously disclosed in May, June and July was false, caused QSI's stock price to
6 drop far more than it would have dropped if QSI management had disclosed accurate
7 information in the first place. Based on QSI's fundamental business performance,
8 and based on the performance of comparable companies in QSI's industry, QSI's
9 stock likely would have continued trading at far higher prices if QSI management
10 had provided timely and accurate information to the market place. Due to the
11 destructive effects of defendants' conduct, QSI's stock continues to trade at price to
12 earnings ratios that are substantially lower than those at which peer companies in its
13 industry trade.

14 68. Over the years, Hussein had grown increasingly frustrated with Razin's
15 flouting of the corporate governance reforms that had been implemented in 1999,
16 Razin's exercise of complete control over QSI decision making despite his nominal
17 status as an "independent" director, Razin's increasing compensation to QSI directors
18 to facilitate his control over the company, and Razin's providing himself with
19 valuable employee benefits for which he was not qualified, as well as the QSI
20 directors' continual rubber stamping of Razin's decisions and willingness to turn a
21 blind eye to Razin's conduct. Consequently, Hussein considered selling his QSI
22 shares at various times. For instance, in a November 2011 13D filing, when QSI's
23 stock was trading near its all-time high, Hussein noted that he had considered selling
24 his shares. Later, in late 2011 and early 2012, Hussein discussed the possibility of
25 selling his QSI shares with more than one trading firm. Hussein ultimately decided
26 not to sell his QSI shares based on his consideration of the financial information that
27 was provided to him by QSI management, including particularly the statements by
28 Plochocki and Holt noted above. Had he known that Plochocki and his management

1 team, at the behest of Razin, was concealing important information concerning QSI's
2 deteriorating growth prospects, and were making statements regarding QSI's
3 anticipated growth that had no basis in the actual performance of QSI's business,
4 Hussein would have immediately sold his QSI stock while it was trading at a much
5 higher price than it traded at following the July 26, 2012 earnings release.

6 69. Following the QSI earnings release on July 26, 2012, Hussein was
7 forced to sell approximately 3.64 million shares of QSI stock between July 26 and
8 July 30, 2012. Those QSI shares were held in margin accounts with UBS, and served
9 as collateral for a loan issued to Hussein by UBS. Before selling the stock, UBS did
10 not provide Hussein with an opportunity to satisfy the margin call, which he could
11 have done using other assets, and instead called the entire loan due and liquidated
12 millions of shares of Hussein's stock without any prior notification. Plaintiff is
13 informed and believes that a representative of UBS, which served as QSI's
14 investment banker, and which Razin once stated to the QSI board of directors
15 managed more than \$100 million of Razin's own investments for him, did call James
16 Sullivan, QSI's Executive Vice President and General Counsel, and informed him of
17 UBS's plans to sell Hussein's stock, in violation of Hussein's rights to maintain the
18 privacy of his financial accounts. Sullivan did not inform Hussein of the call, or tell
19 UBS that QSI had no right to involve itself in the sale of Hussein's stock, but rather
20 told UBS that QSI had no objection to UBS proceeding with the sale of Hussein's
21 stock. These forced sales took place while QSI's stock price was at highly depressed
22 levels as a result of the complete retraction of the company's projections in the July
23 26, 2012 earnings release and conference call, and caused Hussein to lose tens of
24 millions of dollars on the shares that were sold. Hussein also suffered tens of
25 millions of dollars in market losses on the approximately 5.7 million QSI shares he
26 continued to hold. QSI directly enabled these forced sales through Sullivan's
27 conversation with UBS, and made no effort to prevent them even though the sale of a
28

1 substantial portion of Hussein's stock was likely to exacerbate the adverse effects of
2 the retraction of QSI's projections on the company's stock price.

3 70. Following the July 26, 2012 QSI earnings release and management's
4 retraction, without explanation, of the company's revenue and earnings projections
5 that had been reaffirmed and disseminated to the investment community less than
6 two weeks earlier, the value of Hussein's QSI investment, which once was worth
7 more than \$470 million, had dropped below \$140 million.

8 71. At the QSI board meeting held on August 16, 2012, the board of
9 directors refused to investigate or even discuss the incredible discrepancy between
10 the projections made and re-affirmed in May, June and July 2012 and the retraction
11 of the company's projections on July 26, 2012. There were only thirteen days
12 between the July 13, 2012 proxy statement reaffirming the prior 20% to 25% growth
13 projections and the company's disclosure of its actual first quarter results and
14 retraction of its projections on July 26, 2012. At some point during those thirteen
15 days, the company must have concluded that the projections would not be reaffirmed
16 in the July 26, 2012 earnings release and that no further projections would be made.
17 Yet, even despite the magnitude of the one-day 36.3% price drop and destruction of
18 market value that occurred on July 26, 2012, QSI's board of directors declined to
19 fulfill its fiduciary responsibility to conduct any investigation of what led to that
20 conclusion, let alone any investigation of what led the company to make the baseless
21 projections in May, June and July 2012 and then retract those projections just thirteen
22 days after they had last been re-affirmed.

23 72. At the August 2012 board meeting, Razin confronted Hussein and told
24 him that he "enjoyed seeing [Hussein's] demise" and "seeing Hussein squirm," and
25 that he wished he had been there to purchase Hussein's shares at a depressed price.

26 73. Following the July 26, 2012 QSI earnings release and retraction of the
27 company's projections, Hussein also confronted Plochocki and Holt and asked them
28 how the company could issue projections and then retract them less than two weeks

1 after they had been reaffirmed. In response, Plochocki said he had authorized the
2 prior projections because they were “even less than what Shelly [Razin] wants.” Holt
3 stated that he did not remember signing off on the prior projections.

4 74. Under the direction of Razin and his management team, QSI continued
5 to struggle following the July 26, 2012 earnings announcement and sudden retraction
6 of the company’s recently reaffirmed projections. Despite requests from Hussein, the
7 board of directors refused to conduct any investigation of Razin and his management
8 team concerning the earnings statements or take any action to investigate how the
9 company could have made projections that were so fundamentally baseless.

10 75. On January 14, 2013, Cline resigned from QSI’s board of directors,
11 stating that “[a]fter careful consideration I have decided that given the current board
12 environment and company issues, I am unable to help the company.” In disclosing
13 Cline’s resignation, the company did not state the reasons for Cline’s resignation or
14 attach Cline’s letter to their disclosure, and omitted the fact that Cline’s resignation
15 letter had been addressed to the entire board of directors.

16 76. QSI’s Executive Vice President and General Counsel James Sullivan
17 subsequently resigned from the company in May 2013, shortly after Hussein’s
18 resignation from the board of directors, but QSI made no disclosure of the fact of
19 Sullivan’s resignation or the reasons for his resignation.

20 77. QSI has continued to struggle following the July 26, 2012 earnings
21 announcement and retraction of its revenue and earnings projections. Razin’s
22 unchecked exercise of control over the company, which previously caused the
23 departure of the NextGen management team that had engineered the company’s prior
24 growth, and which previously destroyed the company’s market credibility through
25 the dissemination of false information, has continued to undermine the value of the
26 company and harm plaintiff since the summer of 2012. On May 23, 2013, QSI
27 announced its fourth quarter and full-year earnings for fiscal 2013. Rather than the
28 20%-25% revenue growth that the company had projected back in May and June

1 2012, QSI's revenues in fact grew by a meager 7% in fiscal 2013. QSI's earnings
 2 and net income per share declined by 44% from fiscal 2012 to fiscal 2013, in contrast
 3 to the 20%-25% growth that the company had previously projected. The company
 4 also announced that, as a result of an "operational review," it had recorded a \$17.4
 5 million goodwill impairment charge during the fourth quarter of 2013, and that as a
 6 result the company had suffered a net loss of \$4.1 million in the fourth quarter of
 7 fiscal 2013, in contrast to a \$15.1 million net profit the prior year. The \$17.4 million
 8 goodwill impairment, which was enormous in relation to the relatively modest size of
 9 the transaction, resulted from an acquisition that Razin completed without any
 10 material discussion by the transactions committee, of which Hussein was the
 11 chairman at the time of the transaction, in violation of provisions in the corporate by-
 12 laws and the 2006 Settlement Agreement requiring transactions of that magnitude to
 13 be considered and approved by the transactions committee. Upon information and
 14 belief, defendants omitted material information concerning the basis for this
 15 impairment in its prior earnings statements and projections.

16 78. In contrast to the enormous losses suffered by Hussein, some of the
 17 individual defendants profited from the artificially inflated QSI stock price during the
 18 spring of 2012. Plochocki sold 88,500 shares of QSI stock on February 23, 2012 for
 19 \$43.99 per share, a price near its all-time high. Plochocki was privy to accurate real-
 20 time information concerning QSI's sales and financial performance.

21 79. Hussein resigned from the QSI board of directors on May 14, 2013.

22
 23 **CAUSES OF ACTION**
 24 **FIRST CAUSE OF ACTION**
 25 **(Against All Defendants for Fraud and Deceit)**

26 80. Plaintiffs reallege and incorporate by reference paragraphs 1 through 79
 27 inclusive, as set forth above.

28 81. Defendants violated the common law of fraud and California Civil Code
 §§ 1709, 1710 and 1572 through the material misrepresentations and non-disclosures

1 alleged above, including the false and deceitful representations made in November
2 2011 that “there is nothing slowing down,” and the false representations in May, June
3 and July 2012 that the company expected 20%-25% earnings and revenue growth in
4 the 2013 fiscal year.

5 82. Defendants made their material misrepresentations and non-disclosures
6 knowing that their statements were false and misleading and with the intent to
7 defraud plaintiff. As alleged above, defendants Razin and Plochocki conspired with
8 one another to make the material misrepresentations and non-disclosures, and acted
9 in furtherance of their conspiracy by making false and misleading statements
10 regarding QSI’s actual projected financial performance.

11 83. Defendants Razin and Plochocki engaged in the wrongful conduct
12 alleged above as officers and directors of QSI and on behalf of QSI, and QSI is thus
13 responsible for their actions.

14 84. Hussein reasonably relied on defendants’ material misrepresentations
15 and non-disclosures by retaining his QSI stock. Hussein considered selling his QSI
16 stock in late 2011 and early 2012, and discussed doing so with his stockbrokers. If
17 he had known that the statements made by QSI management regarding the
18 company’s projected growth for the 2013 fiscal year were not based on any
19 legitimate factual foundation, Hussein would have sold his QSI stock. If Hussein had
20 known the true facts concerning QSI’s dismal financial performance, he would have
21 disclosed those facts in his own proxy statement because doing so would have
22 provided further support for his effort to replace the incumbent board.

23 85. As a proximate result of relying on defendants’ material
24 misrepresentations and non-disclosures, plaintiff incurred actual damages consisting
25 of the loss in value of his QSI stock.

26 86. Hussein nominated an independent slate of proposed directors that
27 would have stood up to Razin and safeguarded the company and its shareholders.
28 Through their misrepresentations, as well as the disparaging attacks on Hussein’s

1 character alleged above, defendants ensured the defeat of Hussein's proposed slate of
 2 directors and the election of the slate of directors aligned with Razin. Defendants'
 3 conduct caused tremendous and irreparable reputational and financial harm to
 4 Hussein, causing him to suffer enormous losses on his QSI stock, harming his
 5 reputation in the investment community, leading Hussein's lenders to call
 6 outstanding loans, and causing Hussein to lose future investment opportunities.

7 87. Defendants' fraudulent conduct alleged above was done intentionally,
 8 through malice, fraud and oppression, and with the intention on the part of the
 9 defendants to deprive Hussein of the true value of his stock, and was despicable
 10 conduct that subjected plaintiff to cruel and unjust hardship in conscious disregard of
 11 his rights, so as to justify an award of exemplary and punitive damages.

12 **SECOND CAUSE OF ACTION**
 13 **(By Plaintiffs against all Defendants for**
 14 **Constructive Fraud)**

15 88. Plaintiffs reallege and incorporate by reference paragraphs 1 through 87
 16 inclusive, as set forth above.

17 89. Defendants are liable to plaintiff for constructive fraud under Cal. Civil
 18 Code § 1573 in that they breached their fiduciary duties to Hussein as a QSI
 19 shareholder and fellow director to protect the interests of plaintiff and to disclose to
 20 plaintiff all material facts as to the business and financial prospects of QSI.
 21 Defendants failed to comply with their duties and, in the case of defendant Plochocki,
 22 instead actually profited from the non-disclosure of material information concerning
 23 QSI.

24 90. Defendants Razin and Plochocki engaged in the wrongful conduct
 25 alleged above as officers and directors of QSI and on behalf of QSI, and QSI is thus
 26 responsible for their actions.

27 91. As a proximate result of relying on defendants' constructive fraud,
 28 plaintiff incurred actual damages consisting in the loss of the value of his QSI stock,

1 as well as tremendous and irreparable financial and reputational harm, as alleged
2 above.

3 92. Defendants' fraudulent conduct alleged above was done intentionally,
4 through malice, fraud and oppression, and was despicable conduct that subjected
5 plaintiff to cruel and unjust hardship in conscious disregard of plaintiff's rights, so as
6 to justify an award of exemplary and punitive damages.

7 **THIRD CAUSE OF ACTION**
8 **(Against All Defendants for Negligent Misrepresentation)**

9 93. Plaintiff realleges and incorporates by reference paragraphs 1 through
10 92, as set forth above.

11 94. Defendants violated the common law of fraud and California Civil Code
12 §§ 1709 and 1710 through the material misrepresentations and non-disclosures
13 alleged above, including the false representations to plaintiff in November 2011 that
14 "there is nothing slowing down," and the false representations in May, June and July
15 2012 that the company expected 20%-25% earnings and revenue growth in the 2013
16 fiscal year.

17 95. Defendants knew and intended that plaintiff would rely on their
18 representations regarding QSI's expected earnings and revenue growth, but had no
19 reasonable grounds for believing that their representations were true when they were
20 made.

21 96. Hussein reasonably relied on defendants' material misrepresentations
22 and non-disclosures by retaining his QSI stock. Hussein considered selling his QSI
23 stock in late 2011 and early 2012, and discussed doing so with his stockbrokers. If
24 he had known that the statements made by QSI management regarding the
25 company's projected growth for the 2013 fiscal year were not based on any
26 legitimate factual foundation, Hussein would have sold his QSI stock.

1 97. As a proximate result of relying on defendants' material
2 misrepresentations and non-disclosures, Hussein incurred actual damages consisting
3 of the loss in value of his QSI stock.

4 98. Defendants Razin and Plochocki engaged in the wrongful conduct
5 alleged above as officers and directors of QSI and on behalf of QSI, and QSI is thus
6 responsible for their actions.

7 **FOURTH CAUSE OF ACTION**
8 **(Against All Defendants for Breach**
9 **of Fiduciary Duty)**

10 99. Plaintiffs reallege and incorporate by reference paragraphs 1 through 98,
11 as set forth above.

12 100. As directors or officers of QSI, Razin and Plochocki owed fiduciary
13 duties to plaintiff as a shareholder of QSI.

14 101. From late 2011 through July 2012, defendants breached their fiduciary
15 duties of care, loyalty, honesty and good faith by falsely reassuring plaintiff and the
16 market regarding QSI's financial condition and projected future performance, as
17 alleged above, either by directly making false statements about the company and its
18 anticipated future growth, and by omitting material information from the statements
19 that were made, or, in the case of Razin, by authorizing such false statements and
20 omissions to be made by other defendants.

21 102. Defendants Razin and Plochocki engaged in the wrongful conduct
22 alleged above as officers and directors of QSI and on behalf of QSI, and QSI is thus
23 responsible for their actions.

24 103. As a result of defendants' breaches of fiduciary duty, defendants'
25 credibility with the marketplace was destroyed on July 26, 2012, when QSI retracted
26 the revenue and growth projections it had made in May, June and July 2012 and
27 reaffirmed less than two weeks earlier, on July 13, 2012. Since the July 26, 2012
28

disclosures, QSI's stock has traded at price/earnings ratios far below those of comparable companies as a result of that loss of credibility.

104. As a result defendants' breaches of fiduciary duty, plaintiff's Quality Systems stock is worth far less than it would have been worth had defendants fulfilled their fiduciary obligations.

105. The breaches of fiduciary duty and acts to assist in the completion of breaches of fiduciary duty by defendants alleged above were done intentionally, through malice, fraud and oppression. This was calculated and despicable conduct that subjected plaintiff to cruel and unjust hardship in conscious disregard of plaintiff's rights, so as to justify an award of exemplary and punitive damages.

PRAYER FOR RELIEF

WHEREFORE, plaintiff prays for judgment, jointly and severally, against defendants, as follows:

1. Compensatory damages in an amount to be proven at trial;
2. Punitive and exemplary damages based on defendants' intentional, malicious, cruel and unjust disregard of plaintiffs' rights and interests; and
3. Pre-judgment interest, costs, attorneys' fees and such other legal and equitable relief as the Court deems appropriate.

Dated: October 4, 2013

By: /s/ Stephen E. Morrissey
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Attorneys for Plaintiff Ahmed Hussein

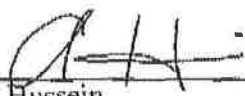
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VERIFICATION

I, Ahmed Hussein, have read the foregoing Verified Complaint know the contents thereof. The matters alleged by me based on my personal knowledge are true and correct, and I believe those matters alleged by me on information and belief are true and correct.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Dated: October 4 2013

By: 
Ahmed D. Hussein
Plaintiff

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

NOTICE OF ASSIGNMENT TO UNITED STATES JUDGES

This case has been assigned to District Judge David O. Carter and the assigned Magistrate Judge is Jean P. Rosenbluth.

The case number on all documents filed with the Court should read as follows:

8:14-cv-00110-DOC(JPRx)

Pursuant to General Order 05-07 of the United States District Court for the Central District of California, the Magistrate Judge has been designated to hear discovery related motions.

All discovery related motions should be noticed on the calendar of the Magistrate Judge.

Clerk, U. S. District Court

January 24, 2014

Date

By APEDRO
Deputy Clerk

NOTICE TO COUNSEL

A copy of this notice must be served with the summons and complaint on all defendants (if a removal action is filed, a copy of this notice must be served on all plaintiffs).

Subsequent documents must be filed at the following location:

☐ Western Division
312 N. Spring Street, G-8
Los Angeles, CA 90012

☒ Southern Division
411 West Fourth St., Ste 1053
Santa Ana, CA 92701

☐ Eastern Division
3470 Twelfth Street, Room 134
Riverside, CA 92501

Failure to file at the proper location will result in your documents being returned to you.

**UNITED STATES DISTRICT COURT, CENTRAL DISTRICT OF CALIFORNIA
CIVIL COVER SHEET**

I. (a) PLAINTIFFS (Check box if you are representing yourself ☐)

Timothy J. Foss, Derivatively on Behalf of Himself and All Others Similarly Situated,

(b) County of Residence of First Listed Plaintiff Ogle Co., Illinois

(EXCEPT IN U.S. PLAINTIFF CASES)

(c) Attorneys (Firm Name, Address and Telephone Number) If you are representing yourself, provide the same information.

Louis N. Boyarsky (SBN 263379), Glancy Binkow & Goldberg LLP, 1925 Century Park East, Suite 2100, Los Angeles, CA 90067, Telephone: (310) 201-9150

DEFENDANTS (Check box if you are representing yourself ☐)

Craig A. Barbarosh, George H. Bristol, James C. Malone, Peter M. Neupert, Morris Panner, D. Russell Pflueger, Steven T. Plochocki, Sheldon Razin, Lance E. Rosenweig and Quality Systems Inc.

County of Residence of First Listed Defendant Orange County, CA

(IN U.S. PLAINTIFF CASES ONLY)

Attorneys (Firm Name, Address and Telephone Number) If you are representing yourself, provide the same information.

II. BASIS OF JURISDICTION (Place an X in one box only.)☐ 1. U.S. Government Plaintiff☐ 3. Federal Question (U.S. Government Not a Party)☐ 2. U.S. Government Defendant☒ 4. Diversity (Indicate Citizenship of Parties in Item III)**III. CITIZENSHIP OF PRINCIPAL PARTIES**—For Diversity Cases Only
(Place an X in one box for plaintiff and one for defendant)

Citizen of This State

PTF ☐ 1 DEF ☒ 1

Incorporated or Principal Place of Business in this State

PTF ☐ 4 DEF ☐ 4

Citizen of Another State

☒ 2 ☐ 2

Incorporated and Principal Place of Business in Another State

☐ 5 ☐ 5

Citizen or Subject of a Foreign Country

☐ 3 ☐ 3

Foreign Nation

☐ 6 ☐ 6**IV. ORIGIN** (Place an X in one box only.)☒ 1. Original Proceeding☐ 2. Removed from State Court☐ 3. Remanded from Appellate Court☐ 4. Reinstated or Reopened☐ 5. Transferred from Another District (Specify)☐ 6. Multi-District Litigation**V. REQUESTED IN COMPLAINT: JURY DEMAND:** ☒ Yes ☐ No (Check "Yes" only if demanded in complaint.)**CLASS ACTION under F.R.Cv.P. 23:** ☐ Yes ☒ No☐ **MONEY DEMANDED IN COMPLAINT:** \$**VI. CAUSE OF ACTION** (Cite the U.S. Civil Statute under which you are filing and write a brief statement of cause. Do not cite jurisdictional statutes unless diversity.)

28 U.S.C. §1332(a). Causes of Action - Breach of Fiduciary Duty, Abuse of Control, Gross Mismanagement, Unjust Enrichment, Insider Selling

VII. NATURE OF SUIT (Place an X in one box only.)

OTHER STATUTES	CONTRACT	REAL PROPERTY CONT.	IMMIGRATION	PRISONER PETITIONS	PROPERTY RIGHTS
<input type="checkbox"/> 375 False Claims Act	<input type="checkbox"/> 110 Insurance	<input type="checkbox"/> 240 Torts to Land	<input type="checkbox"/> 462 Naturalization Application	Habeas Corpus:	<input type="checkbox"/> 820 Copyrights
<input type="checkbox"/> 400 State Reapportionment	<input type="checkbox"/> 120 Marine	<input type="checkbox"/> 245 Tort Product Liability	<input type="checkbox"/> 465 Other Immigration Actions	<input type="checkbox"/> 463 Alien Detainee	<input type="checkbox"/> 830 Patent
<input type="checkbox"/> 410 Antitrust	<input type="checkbox"/> 130 Miller Act	<input type="checkbox"/> 290 All Other Real Property	TORTS	<input type="checkbox"/> 510 Motions to Vacate Sentence	<input type="checkbox"/> 840 Trademark
<input type="checkbox"/> 430 Banks and Banking	<input type="checkbox"/> 140 Negotiable Instrument	TORTS	PERSONAL PROPERTY	<input type="checkbox"/> 530 General	SOCIAL SECURITY
<input type="checkbox"/> 450 Commerce/ICC Rates/Etc.	<input type="checkbox"/> 150 Recovery of Overpayment & Enforcement of Judgment	PERSONAL INJURY	<input type="checkbox"/> 370 Other Fraud	<input type="checkbox"/> 535 Death Penalty	<input type="checkbox"/> 861 HIA (1395ff)
<input type="checkbox"/> 460 Deportation	<input type="checkbox"/> 151 Medicare Act	<input type="checkbox"/> 310 Airplane	<input type="checkbox"/> 371 Truth in Lending	Other:	<input type="checkbox"/> 862 Black Lung (923)
<input type="checkbox"/> 470 Racketeer Influenced & Corrupt Org.	<input type="checkbox"/> 152 Recovery of Defaulted Student Loan (Excl. Vet.)	<input type="checkbox"/> 315 Airplane Product Liability	<input type="checkbox"/> 380 Other Personal Property Damage	<input type="checkbox"/> 540 Mandamus/Other	<input type="checkbox"/> 863 DIWC/DIWW (405 (g))
<input type="checkbox"/> 480 Consumer Credit	<input type="checkbox"/> 153 Recovery of Overpayment of Vet. Benefits	<input type="checkbox"/> 320 Assault, Libel & Slander	<input type="checkbox"/> 385 Property Damage Product Liability	<input type="checkbox"/> 550 Civil Rights	<input type="checkbox"/> 864 SSID Title XVI
<input type="checkbox"/> 490 Cable/Sat TV	<input type="checkbox"/> 156 Stockholders' Suits	<input type="checkbox"/> 330 Fed. Employers' Liability	BANKRUPTCY	<input type="checkbox"/> 555 Prison Condition	<input type="checkbox"/> 865 RSI (405 (g))
<input type="checkbox"/> 850 Securities/Commodities/Exchange	<input type="checkbox"/> 190 Other Contract	<input type="checkbox"/> 340 Marine	<input type="checkbox"/> 422 Appeal 28 USC 158	<input type="checkbox"/> 560 Civil Detainee Conditions of Confinement	FEDERAL TAX SUITS
<input type="checkbox"/> 890 Other Statutory Actions	<input type="checkbox"/> 195 Contract Product Liability	<input type="checkbox"/> 345 Marine Product Liability	<input type="checkbox"/> 423 Withdrawal 28 USC 157	FORFEITURE/PENALTY	<input type="checkbox"/> 870 Taxes (U.S. Plaintiff or Defendant)
<input type="checkbox"/> 891 Agricultural Acts	<input type="checkbox"/> 196 Franchise	<input type="checkbox"/> 350 Motor Vehicle	CIVIL RIGHTS	<input type="checkbox"/> 625 Drug Related Seizure of Property 21 USC 881	<input type="checkbox"/> 871 IRS-Third Party 26 USC 7609
<input type="checkbox"/> 893 Environmental Matters	REAL PROPERTY	<input type="checkbox"/> 355 Motor Vehicle Product Liability	<input type="checkbox"/> 440 Other Civil Rights	<input type="checkbox"/> 690 Other	
<input type="checkbox"/> 895 Freedom of Info. Act	<input type="checkbox"/> 210 Land Condemnation	<input type="checkbox"/> 360 Other Personal Injury	<input type="checkbox"/> 441 Voting	LABOR	
<input type="checkbox"/> 896 Arbitration	<input type="checkbox"/> 220 Foreclosure	<input type="checkbox"/> 362 Personal Injury-Med Malpractice	<input type="checkbox"/> 442 Employment	<input type="checkbox"/> 710 Fair Labor Standards Act	
<input type="checkbox"/> 899 Admin. Procedures Act/Review of Appeal of Agency Decision	<input type="checkbox"/> 230 Rent Lease & Ejectment	<input type="checkbox"/> 365 Personal Injury-Product Liability	<input type="checkbox"/> 443 Housing/Accommodations	<input type="checkbox"/> 720 Labor/Mgmt. Relations	
<input type="checkbox"/> 950 Constitutionality of State Statutes		<input type="checkbox"/> 367 Health Care/Pharmaceutical Personal Injury Product Liability	<input type="checkbox"/> 445 American with Disabilities-Employment	<input type="checkbox"/> 740 Railway Labor Act	
		<input type="checkbox"/> 368 Asbestos Personal Injury Product Liability	<input type="checkbox"/> 446 American with Disabilities-Other	<input type="checkbox"/> 751 Family and Medical Leave Act	
		<input type="checkbox"/> 369 Product Liability	<input type="checkbox"/> 448 Education	<input type="checkbox"/> 790 Other Labor Litigation	
				<input type="checkbox"/> 791 Employee Ret. Inc. Security Act	

FOR OFFICE USE ONLY:

Case Number: **SA CV 14-00110**

CV-71 (11/13)

CIVIL COVER SHEET

Page 1 of 3

**UNITED STATES DISTRICT COURT, CENTRAL DISTRICT OF CALIFORNIA
CIVIL COVER SHEET**

VIII. VENUE: Your answers to the questions below will determine the division of the Court to which this case will most likely be initially assigned. This initial assignment is subject to change, in accordance with the Court's General Orders, upon review by the Court of your Complaint or Notice of Removal.

Question A: Was this case removed from state court?	STATE CASE WAS PENDING IN THE COUNTY OF:	INITIAL DIVISION IN CACD IS:
<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> Los Angeles	Western
If "no," go to Question B. If "yes," check the box to the right that applies, enter the corresponding division in response to Question D, below, and skip to Section IX.	<input type="checkbox"/> Ventura, Santa Barbara, or San Luis Obispo	Western
	<input type="checkbox"/> Orange	Southern
	<input type="checkbox"/> Riverside or San Bernardino	Eastern

Question B: Is the United States, or one of its agencies or employees, a party to this action?	If the United States, or one of its agencies or employees, is a party, is it:		INITIAL DIVISION IN CACD IS:
	A PLAINTIFF? Then check the box below for the county in which the majority of DEFENDANTS reside.	A DEFENDANT? Then check the box below for the county in which the majority of PLAINTIFFS reside.	
<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	<input type="checkbox"/> Los Angeles	<input type="checkbox"/> Los Angeles	Western
If "no," go to Question C. If "yes," check the box to the right that applies, enter the corresponding division in response to Question D, below, and skip to Section IX.	<input type="checkbox"/> Ventura, Santa Barbara, or San Luis Obispo	<input type="checkbox"/> Ventura, Santa Barbara, or San Luis Obispo	Western
	<input type="checkbox"/> Orange	<input type="checkbox"/> Orange	Southern
	<input type="checkbox"/> Riverside or San Bernardino	<input type="checkbox"/> Riverside or San Bernardino	Eastern
	<input type="checkbox"/> Other	<input type="checkbox"/> Other	Western

Question C: Location of plaintiffs, defendants, and claims? (Make only one selection per row)	A. Los Angeles County	B. Ventura, Santa Barbara, or San Luis Obispo Counties	C. Orange County	D. Riverside or San Bernardino Counties	E. Outside the Central District of California	F. Other
Indicate the location in which a majority of plaintiffs reside:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Indicate the location in which a majority of defendants reside:	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Indicate the location in which a majority of claims arose:	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

C.1. Is either of the following true? If so, check the one that applies: <input checked="" type="checkbox"/> 2 or more answers in Column C <input type="checkbox"/> only 1 answer in Column C and no answers in Column D Your case will initially be assigned to the SOUTHERN DIVISION. Enter "Southern" in response to Question D, below. If none applies, answer question C2 to the right. →	C.2. Is either of the following true? If so, check the one that applies: <input type="checkbox"/> 2 or more answers in Column D <input type="checkbox"/> only 1 answer in Column D and no answers in Column C Your case will initially be assigned to the EASTERN DIVISION. Enter "Eastern" in response to Question D, below. If none applies, go to the box below. ↓
Your case will initially be assigned to the WESTERN DIVISION. Enter "Western" in response to Question D below.	

Question D: Initial Division?	INITIAL DIVISION IN CACD
Enter the initial division determined by Question A, B, or C above: →	SOUTHERN DIVISION

If yes, list case number(s):

If yes, list case number(s):

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